Austria	Sch22	Indonesia	Rp3100	Portugal	Esc100
Bahrain	Din0.650	Israel	NS3.50	S.Arabia	Rls6.00
Belgium	BFr48	Italy	L1600	Singapore	S$4.10
Canada	C$1.00	Japan	Y600	Spain	Pta125
Cyprus	C£0.75	Jordan	Fils500	Sri Lanka	Rup30
Denmark	DKr9.00	Kuwait	Fils500	Sweden	SKr8.00
Egypt	E£2.25	Lebanon	$L725.00	Switzerland	SFr2.20
Finland	Fmk7.00	Luxembourg	LFr48	Taiwan	NT$65
France	FFr6.50	Malaysia	Rm4.25	Thailand	Bht50
Germany	DM2.20	Mexico	Pes300	Tunisia	Din0.800
Greece	Dr100	Morocco	Dh6.00	Turkey	L500
Hong Kong	HK$12	Netherlands	Fl3.00	UAE	Dh6.50
India	Rup15	Norway	NKr8.00	USA	$1.00

FINANCIAL TIMES

EUROPE'S BUSINESS NEWSPAPER

No. 30,342 Monday September 21 1987 D 8523 A

Angola: a change of mood, but not of prospects, Page 21

World News

Nakasone flies in with cash offer

Japanese Prime Minister Yasuhiro Nakasone will offer financial assistance for attempts to keep the Gulf shipping lanes open when he meets President Ronald Reagan in New York today.

In what is likely to be their last meeting before Nakasone's mandate ends next month, the two leaders are also expected to discuss tensions in their countries' trading relationship. Page 5

Pakistan suspects

More than 80 Afghans and several Iranians have been arrested for alleged involvement in a wave of bomb blasts in Pakistan.

Channel sailors killed

Two Yugoslav sailors were killed when their ship was in collision with a Norwegian cargo vesel in thick fog in the English Channel off the Breton coast.

Bangladesh flood tax

Bangladesh announced increased taxes on incomes and luxuries to pay for relief from the worst floods in 40 years.

Support for Aquino

A march to two Philippines army camps, intended as a demonstration of support for President Corazon Aquino, was attended by less than 4,000 mainly middle-class people.

Plot to kill Haughey

Police in Dublin are investigating an alleged plot by Protestant extremists from Northern Ireland to kill Irish Prime Minister Charles Haughey.

Trade talks hope

Free trade talks between the US and Canada were entering their final phase amid hopes of a breakthrough on the key issue of dispute settlement. Page 6

Afghan rebel strike

Afghan rebels had killed two people in a mosque when they fired rockets into a town in the northern province of Balkh, Kabul Radio reported.

Body found in Alps

The body of a British climber, missing since early this month, had been found on Mont Blanc but his companion was still missing, French police reported.

Cuomo in Moscow

New York State Governor Mario Cuomo arrived in Mosocw for meetings with officials and academics.

India warns Tamils

India promised firmness in implementing the Sri Lankan peace plan despite opposition by guerrillas of the Liberation Tigers of Tamil Eelam.

Central America plea

Latin American foreign ministers called for economic support for the Central American peace plan at the annual ministerial council of the Latin American Economic System in Caracas.

Managua gesture

Nicaragua's Sandinista Government would allow the opposition paper La Prensa to reopen immediately and without prior censorship, Foreign Minister Miguel d'Escoto said.

Israelis on strike

Some 150,000 public workers began a week-long strike throughout Israel over wage demands.

Prost sets record

World champion Alain Prost surpassed Jackie Stewart's record of Grand Prix wins when he won his 28th, the Portuguese, breaking the lap record four times.

Shamir denies link

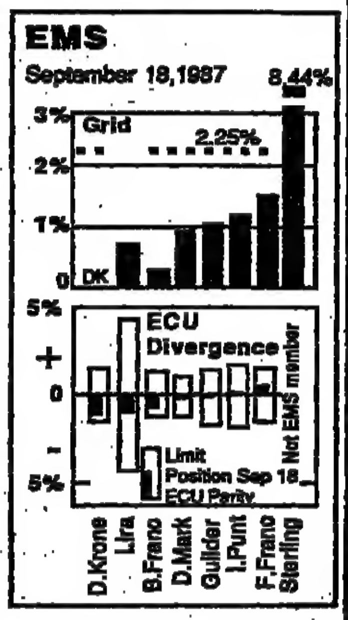
Israeli Prime Minister Yitzhak Shamir denied knowledge of talks between members of his Herut party and supporters of the Palestine Liberation Organisation.

Business Summary

Suez to limit foreign share of offering

COMPAGNIE FINANCIERE de Suez, French banking and investment group to be privatised next month, is expected to limit its international offering to about FFr2bn ($330m), well short of potential foreign demand. The group has already received commitments from a number of overseas fund managers promising to hold onto any shares they receive for at least six months. Page 22

EUROPEAN Monetary System: Trading conditions were a little more relaxed last week, mainly because of a firmer dollar. This reduced the value of the D-Mark and effectively stalled any build-up of pressure on the weaker currencies. Consequently central banks were not active, and the weakest member, the Danish krone, was trading comfortably within its divergence limit.



The chart shows the two constraints on the European Monetary System exchange rates. The upper grid, based on the weakest currency in the system, defines the cross rates from which no currency (except the lira) may move more than 2¼ per cent. The lower chart gives each currency's divergence from the "central rate" against the European Currency Unit (Ecu), itself a basket of currencies.

SWEDEN is to introduce a turnover tax on transactions in the money market and futures and options markets. The new tax will be levied at a rate of 0.03 per cent on the turnover of interest-bearing securities and is expected to raise around SKr1bn ($157m) a year.

EUROTUNNEL, the Anglo-French Channel tunnel consortium, which plans a £750m international share issue in November, has criticised its contractors for delays, inefficiency and failing to comply with obligations. Page 22

COMPAGNIE d'Investissements de Paris, investment subsidiary of state-owned Banque Nationale de Paris, plans to raise FFr1.36bn ($226m) through a one-for-three rights issue, just two months after its flotation on the Paris stock exchange. Page 23

CONTINENTAL Corporation, one of the largest US property and casualty insurers plans to divest its life insurance companies which have a book value of $432m. Page 24

SEB, leading French producer of household electrical equipment, more than doubled its first half profits to FFr170.4m ($28.3m) and expects net earnings for the full year to to rise by 30 per cent. Page 24

ITALIA OGGI, independent financial newspaper launched ten months ago, has been sold by its proprietors after incurring losses of L20bn ($15.4m). Page 3

THORN EMI, diversified UK electronics and retailing group, is planning to expand its rental operations in North America and to organise its purchasing on a global basis. Page 10

UK INDUSTRIAL output is still rising strongly, reports the CBI, although a weakening in export orders has cut the rate of increase. Nearly 40 per cent of companies expect output to rise in the rest of the 1987. Page 10

Arab League calls summit in new bid to end Gulf war

BY JOAN WUCHER KING IN TUNIS AND RICHARD JOHNS IN LONDON

ARAB foreign ministers,meeting in Tunis yesterday, decided to call an extraordinary summit of the Arab League to discuss the Gulf war and ways of ending it.

The summit will be held on November 8, probably in Amman, Jordan. Under the plan accepted by nearly all members of the Arab League yesterday, the summit deliberations will be restricted to the conflict. Earlier yesterday, in what could prove to be an escalation of the "tanker war" in the Gulf, a Saudi Arabian products carrier,the Petroship B, came under a machine-gun attack from an Iranian launch. There were no casualties and it was able to continue its voyage to the Red Sea without assistance.

It was the first Iranian retaliation for Iraqi strikes against its oil traffic which were resumed in the wake of the failed peace mission to the Gulf by Mr Javier Perez de Cuellar,the UN Secretary-General.

The attack followed several days of heavy Iraqi raids against oil and other economic targets, including a confirmed strike last Friday against a Cypriot-registered supertanker, the 238,919 tonne Actinia.

Hitherto, with the exception of one incident last year, Iran has concentrated almost exclusively on Kuwaiti shipping and has maintained a tacit stand-off regarding Saudi Arabia's vessels.

The decison to call the summit was unanimous, but Syria had evident misgivings about the forthcoming meeting in seven weeks' time being limited to the one issue. Syria would like other topics, in particular the Arab-Israeli conflict, to be discussed.

By calling for a meeting of Arab leaders the foreign ministers and (in the absence of four of them) representatives of the 21 member states avoided the issue of whether to impose diplomatic sanctions against Iran by breaking off relations because of its failure to accept unequivocally UN Security Council resolution 598 of July 20 and its call for a ceasefire.

The original purpose of Sunday's meeting in Tunis was to review the situation and decide on collective measures if Tehran had not espoused its call for a ceasefire by September 20 in line with the decision of the previous meeting in Tunis on August 25.

At the Tunis meeting Syria opposed moves, led by Saudi Arabia and its allies, to isolate Iran and is believed to have done so again at the latest meeting. Syria could point to the fact that in talks with Mr Perez de Cuellar a week ago the Iranian leadership had not rejected the resolution in its entirety, or any single part of it.

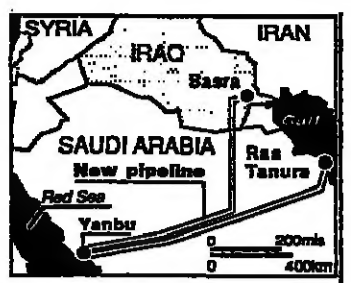
On this score the resolution adopted in Tunis enphasised the necessity for it to be adopted in its entirety.

Another important and related consideration yesterday was the fact that President Ali Khamanei of Iran is scheduled to address the UN General Assembly tomorrow. He may clarify the Iranian response to Mr Perez de Cuellar's soundings in Tehran last weekend.

The leaking late last week of the report submitted by him to the UN Security Council has confirmed that Iran was prepared to accept an "undeclared cessation of hostilities" if an impartial inquiry is set up to determine responsibility for the war.

Mr Ali Akbar Velayati, Iran's Foreign Minister, met Mr Perez de Cuellar on Saturday but the UN chief said afterwards "he had nothing new to convey to me".

The Kuwaitis especially, however, were believed to be very pessimistic about UN mediation leading to a ceasefire



Germans lose Iraqi oil pipeline bid contest

By Tony Walker in Baghdad

IRAQ has awarded a $1.5bn oil pipeline contract to an Italian-Japanese consortium. The 1,000km pipeline, through Saudi Arabia, will sharply increase Iraq's oil export capacity to more than 3m barrels a day, equivalent to pre-war levels.

The agreement, signed in Baghdad at the weekend by representatives of SCOP, the Iraqi oil projects company, and Saipem of Italy, is a major blow to West German industry.

Mannesmann was believed to be close to winning the contract when Mr Hans-Dietrich Genscher, the West German Foreign Minister, offended Baghdad in July by suggesting in an interview that Iraq had started the war with Iran.

Iraq reacted angrily, suspending negotiations with the West German company. Bonn engaged in desperate diplomatic efforts, including an offer by Mr Genscher to visit Iraq, in an attempt to mellify the Iraqis.

The successful consortium also includes Mitsubishi of Japan, Hyundai of South Korea and Spie-Cepag of France.

The new pipeline, due to be completed by mid-1989, will give Iraq the ability to tranship 1.65m b/d through Saudi Arabia. It is presently exporting 500,000m b/d through the Saudi petroline to a loading port at Yanbu on the Red Sea.

Iraq's Opec quota is 1.54m b/d. It is exporting up to 2.3m b/d of crude oil and a small quantity of refined product. In addition 1.5m b/d is being exported through two Turkish pipelines, 500,000 b/d through the Saudi petroline, and about 250,000 b/d by truck through Jordan and Turkey.

Issam Abdul-Rahim al Challaby, Iraq's oil minister, told a Baghdad news conference yesterday that the IPSA-2 (Iraqi Pipeline through Saudi Arabia) was a major undertaking.

The project is being financed, according to Western sources, by a cash down-payment and oil.

Mannesmann had emerged as a low bidder in a ferocious bidding duel with separate consortia led by Saipem and Mitsubishi.The Japanese and Italian groups joined earlier this year to "take on" the Germans who had lodged a highly competitive tender,

Argentina sets strategy for IMF loans

BY TIM COONE IN BUENOS AIRES

ARGENTINA will no longer accept loan conditions from the IMF "which do not coincide with the national interest," according to President Raul Alfonsin.

In a televised address to the nation at the weekend, to outline the future course of economic policy to be followed by his new Cabinet, he said that the limited room for manoeuvre available to make economic adjustments "is being reduced even more by the way in which the International Monetary Fund acts." He said that future agreements with the Fund would, therefore, be made "compatible with the idea of growth."

He also repeated earlier statements that Argentina would in future seek a freezing of interest rates on its foreign debt. He said the rise in rates this year would cost Argentina "$700m more than planned" and that such fluctuations made it "difficult to think of planning or even to administer the state's resources.

"It is not possible to continue with these levels of uncertainty and therefore we shall negotiate an upper limit to the interest rate," he said.

He insisted, however, that there would be no unilateral action by Argentina with its creditors. "Negotiation is the instrument of our policy. We do not wish to leap into a vacuum... The reprisals would be greater than the benefits," he said.

On other aspects of economic policy he said the anti-inflation strategy would be reinforced in the coming months, alongside new taxation measures "under which those who earn more pay their taxes" and that plans to deregulate the economy and to privatise state sector companies would be accelerated.

The proposed move of the capital to Viedma in the south was to go ahead as planned, while a proposal to reform the constitution had been postponed "until it is perfectly clear that there is a concensus and a broad majority in favour of it," he said. The reform proposes the creation of a parliamentary-style system with a cabinet headed by a prime minister, and the president's role being reduced to that of a formal head of state.

Argentina's new debt strategy will be tested in Washington at the end of the month at the annual general meeting of the IMF. President Alfonsin spent the weekend at his summer residence, together with his Cabinet and senior party advisors, to discuss debt proposals and the reinforced anti-inflation strategy.

Peugeot chief threatens to quit over Renault aid

BY PAUL BETTS IN PARIS

MR JACQUES CALVET, head of the Peugeot-Citroen car group, has threatened to resign as chairman of France's largest private enterprise if the French Government goes ahead with plans to bail out Renault, the state-owned car group, with a major new cash injection.

In the run-up to next spring's presidential elections, the threat of a major confrontation between Peugeot and the French Government would have far-reaching political repercussions at a time when the Chirac Administration is already coming under attack for manipulating its privatisation programme to the advantage of its political friends on the right.

Mr Calvet is understood to have already told the Government he would resign as Peugeot chairman if the Renault financial salvage plan distorts the French car market and gives the state car group an unfair competitive advantage against its private sector rival.

The French Government announced last month that it planned to end Renault's priveleged status as a national "regie" which has protected it up to now from bankruptcy. A regie is a state-owned corporation which is not subject to the ordinary constraints of company law. In practice that means that Renault has been able to count on a blank cheque from the state to cover its past losses.

This year Renault expects to return to profit after major restructuring, and the Government intends to turn it into an "ordinary company," although still under state control. But before changing Renault's status, the Government must first recapitalise Renault to restore its balance sheet, currently showing FFr9bn ($1.5bn) negative net worth for the car group as a whole.

Mr Calvet has argued that a major injection of state funds totalling about FFr10bn into Renault, on top of the FFr10.9bn it has already received since 1983, would give the state group an unfair competitive advantage over Peugeot. Moreover, Mr Calvet has emphasised that Peugeot, itself in dire financial straits a few years ago, managed to pull itself back into the black through its own resources without Government help. Peugeot is also worried by the potential huge tax carry-back advantages, worth about FFr27bn, on Renault's future profits once the state group is converted into an ordinary state-controlled enterprise.

Although the Government had virtually finalised its plans for

Continued on Page 22

Poland needs 'faster economic reforms'

BY CHRISTOPHER BOBINSKI IN WARSAW

POLAND MUST speed-up market orientated reforms if it is to surmount its balance of payments problems and regain access to much needed Western capital and technology, says the World Bank in a major report completed last month, almost a year after Poland joined the international lending agency.

The Bank praises the latest Polish plans to achieve an external current account surplus in 1991 as "generally feasible," but argues that general efficiency and domestic demand management must improve if this result is to be attained.

The report comes as the Polish authorities are struggling to produce a detailed economic reform package which tackles the issue of how quickly, and by how much, to raise prices to achieve market equilibrium.

Conservative lobbies are also seeking to defend established priorities for heavy industry, while government officials are fighting to maintain central powers threatened by the proposed changes.

In an indirect reference to these debates the report admits that "in theory the recovery of the Polish economy might be attempted by a return to methods associated with traditional central planning, but in practice this option is not viable."

The bank has identified three areas where loans would directly boost Poland's export capacity - food processing, equipment to maintain coal production levels, and the reduction of bottlenecks in industry to provide higher export sales growth. Polish authorities hope that decisions on such new credits, which could be in excess of $300m, will be taken soon.

In June the Poles presented a revised scenario for external adjustment which assumed that hard currency exports would

Continued on Page 22

EC ministers face Commission ultimatum on steel industry

BY WILLIAM DAWKINS IN BRUSSELS

INDUSTRY MINISTERS from the 12 EC member states meet in Brussels today to face an uncomfortable ultimatum from the European Commission over the future of the Community's steel industry.

They will be told to agree on a final date for the ending of the cosy price- and capacity-sharing arrangements that have cushioned steel producers from their recession since 1980. According to diplomats, the Commission will also ask ministers to commit themselves to cuts "well into double figures" in the EC's 30m tonnes steelmaking overcapacity by November 30.

If ministers fail to agree on these measures, Mr Karl-Heinz Narjes, the Industry Commissioner, has promised to scrap EC-imposed quotas from the end of the year, a prospect which many producers fear will plunge them into a price war, with the loss of many thousands of jobs.

Today's meeting is the industry ministers' first chance to discuss Brussels' elaborate package for the future of steel since its adoption by the Commission last July, although it has circulated among national officials and a sceptical steel industry.

Even at this stage, it is clear that Mr Kenneth Clarke, Britain's Industry Minister, will be fighting a lone cause. The UK is the only member state not to accept Brussels' proposal that quotas should continue for three years for the most politically sensitive products - hot rolled coil, cold rolled sheet, plate and heavy sections - so long as adequate closures can be found.

Industry Commissioner Karl-Heinz Narjes: ready to scrap steel quotas

The UK, with its newly profitable steel industry, wants an immediate end to quotas and is highly sceptical about the industry's ability to agree on adequate closures. This view has the sympathy, but only partial support of the Netherlands, which would rather halve the Commission's three-year quota extension.

Member states are in even deeper disarray on other parts of the complex package. The proposals as they stand are unlikely to win the overall support of the qualified majority, including two of the big four steel producers, France, Britain, Germany and Italy, needed under EC steel rules.

To complicate matters further, the Commission is asking governments to produce closures that could have dramatic domestic political consequences. Eurofer, the "club" of big integrated steelmakers, did earmark just over 15m tonnes for closure earlier this year, but the Commission feels this is not nearly enough to justify continuing quotas because it consists largely of cuts that were going to have been made in any case.

More seriously, the Eurofer offer contains nothing to reduce the 10m tonnes of hot-rolled wide-strip capacity - equivalent

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THE MONDAY PAGE INTERVIEW

Raymond Snoddy talks to Michael Checkland, director-general of the BBC Page 17

OVERSEAS NEWS

Liberal concern tempers applause for Pope

BY LOUISE KEHOE IN SAN FRANCISCO

HUNDREDS of thousands of American Roman Catholics roared their applause at spectacular open-air Papal Masses in California last week, as Pope John Paul II concluded his ten-day whirlwind tour of the US.

At San Francisco's Candelstick Park, which, in spite of its name, is more commonly used to stage baseball and football games than religious services, 70,000 worshippers gathered at dawn to greet the pontiff at last Friday morning's Mass. Earlier last week, even bigger crowds were drawn to Masses in Los Angeles and Monterey.

But the warmth and excitement engendered by the charismatic pontiff appearances was tempered by his reiteration of the Vatican's firm conservative stand upon such controversial issues as the role of women in the male-dominated Catholic Church, homosexuality, birth control and divorce. At a meeting with representatives of the laity in San Francisco, several American Catholics expressed their concerns.

"Though I know the church is not a democracy ruled by popular vote, I expect to be treated as a mature, educated and responsible adult," Donna Hanson, volunteer head of the national lay advisory council of the National Conference of Catholic Bishops, told the Pope. "I do not always feel that I am heard," Mrs Hanson added.

Responding to the laity, Pope John Paul praised the traditional role of women as mothers and educators and reaffirmed his stand against artificial birth control, despite mounting evidence that a majority of American Catholics dissent.

While the Pope gave American liberal Catholics little hope of any imminent change in the Church's stand on social issues, many were surprised and pleased by the frank discussions that have taken place during his visit. Such exchanges, if they had been allowed in the past, would almost certainly have been private, observers noted.

In San Francisco, where homosexuals mounted a protest demonstration against the Pope's visit, John Paul II met and blessed several AIDS sufferers and said that those afflicted with the disease "are in the heart of the church" and should be treated with compassion and love. He remained silent, however, on the issue of homosexuality, which the church has said is "intrinsically evil."

Hispanic American Catholics, who now number about 38 per cent of the 52m US Catholics, received special recognition. On several occasions, including the Pope's mass in Monterey, California, where a large portion of the congregation was made up of the families of migrant Mexican farmworkers, Spanish language and English readings were interspersed.

The Pope appeared to be determined to unite his diverse flock in the US, which has been increasingly torn by cultural clashes. The growing dominance of Hispanics in the US Catholic church has yet to be reflected in the US hierarchy and has led to resentment among established American sectors of the Church.

As the Pope concluded his US tour on Sunday, American Catholics began to assess the impact of the visit. It was, according to Archbishop John Quinn of San Francisco, a triumph that can be measured "not in terms of the number of tickets sold, but . . . like trying to measure the beauty of the sunset." For millions of Americans, however, the visit of their spiritual leader has accentuated the contrasts between a Polish Pope for whom freedom of religion remains a major goal and an American congregation among which freedom of expression and freedom of conscience are established rights.

Shamir lists South Africa sanctions

MR YITZHAK SHAMIR, the Israeli Prime Minister, said Israel is to reduce ties with South Africa further to keep up with other Western countries, Reuter reports from Jerusalem.

"It is hard for Israel to be exceptional from all Western nations. We did what we saw had to be done, no more or less," Mr Shamir, leader of the rightest Likud bloc, told state radio.

Israel's policy-making inner Cabinet agreed last week on 10 sanctions limiting cultural, economic, scientific and sporting links along with official visits. Israel agreed last March not to enter into new military deals with Pretoria.

The Israeli Foreign Ministry on Frida yissued the list of sanctions. They included:

- No new Israeli investments in South Africa will be approved. Proposed exceptions must be submitted to a government committee.
- Israel will prohibit the granting of government loans to South Africa, the sale and transfer of oil and its products and the import here of Krugerrands.
- The import quota for iron and steel will be frozen so as not to exceed its present volume.
- Cultural ties will reflect Israel's negative view of apartheid.

Genscher calls for faster pace of EC integration

BY DAVID MARSH IN BONN

MR HANS-DIETRICH Genscher, the West German Foreign Minister, has urged Western Europe to speed up faltering moves toward political and economic integration in response to the new policy of openness from the Soviet Union.

In a newspaper article published at the weekend, Mr Genscher warned of the risk that "dynamism" in East-West relations could be accompanied by "sloth and standstill" in co-operation among Western European countries.

Mr Genscher said that, previously, the West was thought likely to speed up convergence only under the threat of Soviet pressure.

"That was old thinking. New thinking requires that we understand the Soviet readiness for openness and co-operation as a challenge for the European Community, and that we therefore decisively take the road towards European Union."

Officials close to Mr Genscher say he wants a more vigorous and united EC in order to tie the Federal Republic as closely as possible to its links with the West. With West Germany's front-line East-West position making it uniquely susceptible to Mr Mikhail Gorbachev's overtures, he is concerned to prevent any eastwards "drift" in response above all to the new mood of rapprochement with East Germany.

Mr Gensher said the planned 1992 move to a genuine internal EC market had a "political dimension" by demonstrating the "irreversible development of the EC."

His plea for greater co-operation in technology and space-flight and a move to monetary union through strengthening European Monetary System was also designed to lay down a marker for the West German EC presidency in the first six months of 1988.

Mr Genscher hopes to revive the Bonn Government's presently flagging enthusiasm for the EC cause. The Government has blocked moves toward agricultural reform because of the need to pacify protesting West German farmers, and has also been far more lukewarm than France over cutting EC trade barriers.

But Mr Genscher is on a potential collision course with Mr Gerhard Stoltenberg, the Finance Minister, who is worried about the financial burdens of repairing the Community's budgetary crisis

Mexico to sell silver certificates

By Lucy Conger in Mexico City

MEXICO will begin sales on Thursday of silver certificates, a new investment instrument for domestic and foreign investment.

The certificates will lift lagging domestic demand for silver and expand the variety of instruments available on Mexico's booming stock exchange, said Mr Miguel Mancera, head of the central bank.

The certificates "open the possibility of a metals futures market in Mexico," said Mr Jaime Corredor, director-general of Banca Cremi. Mexico is the world's largest producer of silver.

The creation of the new instrument comes as stockbrokers are beginning to set up a domestic agricultural commodities market and Mexico's capital markets are undergoing rapid expansion.

The certificates, called Seplatas in Spanish, each represent 100 troy ounces of silver, backed by silver bars, and will be sold by banks and stockbrokers to individual and institutional investors at the international silver market price on the date of sale.

The first issue of 40,000 certificates covers 4m troy ounces of "good delivery" quality silver, or 5 per cent of Mexico's annual output.

Central American talks end

CENTRAL AMERICAN foreign ministers ended two days of talks on their new peace treaty in the Nicaraguan capital on Friday night having made some procedural progress, Peter Ford repors from Managua.

Most importantly, they postponed discussions of the pact's key elements — simultaneous enactment of the several commitments their presidents made last month—until a sub-commission meets in early October.

That group will also consider "the deadline by which all the commitments should be carried out," the ministers said in their final communique. This seemed a step back from the November 7 deadline set by the Guatemala Treaty.

The original timetable "was much too optimistic," said one diplomat at last week's meeting.

The peace treaty commits Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua to ensuring that ceasefires and amnesties have been declared in all the region's wars by November 7, that their political systems are democratic, and that no guerrillas are using their territory for sanctuary. All those steps are due to be taken simultaneously.

Voest-Alpine denies arms plan

BY JUDY DEMPSEY IN VIENNA

THE CHIEF executive of Voest-Alpine, Austria's largest state run steel and engineering group, has denied press reports that the company was planning to build an arms factory in Iran.

Dr Heribert Lewinsky who faced a tough interview on Austrian television last week, said that Noricum, the weapons division of Voest-Alpine was not negotiating to win a contract to build such a factory. However, he said, Noricum was pursuing a contract to supply metals materials to Iran.

The materials, Dr Lewinsky said, would have the potential, if combined with other products, to be converted into weapons. But at the moment, he said, Noricum was not contravening any government legislation. The Austrian authorities refuse to allow Austrian companies to build factories exclusively for weapons.

Meanwhile, investigations continue into allegations that Noricum illegally sold weapons to Iran in 1985 and 1986.

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Asian countries warned about trade imbalance

BY STEWART FLEMING, US EDITOR, IN WASHINGTON

A US Treasury official has warned that newly industrialising economies in Asia, in particular Taiwan, are likely to come under increasing pressure from the leading industrial countries to do more to reduce their trade surpluses and contribute to the correction of international trade imbalances.

"The Nics (newly industrialising countries) have been increasing their surpluses with us at a time when our (trade) figures are showing some improvement," the official said in an interview with the Financial Times. "That means our (trade) problem with them is even more urgent than with the G7"—the group of seven leading industrial countries.

The official confirmed that the US has been pressing Tiwan, Hong Kong and South Korea to restructure their economies and to appreciate their currencies in order to reduce their trade surpluses. He pointed out that, particularly in the case of Korea, in part because of the political situation there, the US has had to be circumspect in how it proceeds.

But he added that as a result of a recent trip to Europe where it was now apparent that the Nics are making big inroads and "the Europeans are feeling the edge of that knife for the first time," the US now senses a growing consensus among the industrialised countries that the Asian Nics must do more to open up their economies and reduce their trade surpluses.

"Taiwan," he said, "is the most egregious example" of an economy which is failing to address these issues vigorously enough.

Questioned about the meetings of industrial country finance ministers and central bankers in Washington later this week, the official said that he expected three major concerns to be raised.

One, he said, was whether the US would be able to deliver budget deficit reductions in 1988 (which he insisted it would), another was the fear that in devising its 1988 budget Japan would take back some of the economic stimulus in its 1987 budget and a third was West German economic growth. "Germany clearly needs to review its situation," he said.

Italian financial newspaper sold

By Alan Friedman in Milan

ITALIA OGGI, the independent Italian financial newspaper launched ten months ago, has been sold after incurring heavy losses.

Mr Giuseppe Cabassi, the Milanese property developer, has paid L35bn (£16m) to buy 71 per cent of IPSOA, the textbook and trade publications group that owns Italia Oggi. The sale of Italia Oggi to Mr Cabassi was already yesterday creating a storm in the world of Italian journalism because of fears by its editor that its editorial freedom could be restricted.

Mr Marco Borsa, the editor of Italia Oggi and one of Italy's most distinguished financial journalists whose father and grandfather worked for The Times of London yesterday declared: "I do not see how its is possible to continue to edit an independent financial newspaper with this proprietor".

Mr Cabassi, for his part, has promised full editorial freedom to Italia Oggi, which has lost L20bn since its launch, largely because of excessive distribution costs.

Haig Simonian on the legal dramas over a DM 473m fraud

VW goes to court over missing millions

THERE WILL be a bustle tomorrow afternoon outside 2 Gerichtsstrasse, a dozy street on the eastern edge of Frankfurt's main shopping district.

Inside the city's Fourth Chamber for Commercial Affairs, Judge Leimert is about to embark on the first public airing of the strange goings-on leading up to the DM 473m foreign exchange fraud at Volkswagen, Europe's biggest car producer, in March this year.

While police and state prosecutors continue to investigate the criminal aspects of the affair in the northern city of Braunschweig, near VW's headquarters, Judge Leimert is presiding over a civil case brought, not by VW, but by the National Bank of Hungary.

The Hungarians are involved because the bulk of VW's losses—some DM 382m—came from eight fraudulent forward foreign exchange contracts transacted with the bank by members of VW's currency dealing staff.

Such contracts are a regular feature of the foreign exchange markets, where companies negotiate advance exchange rate deals wtih banks in order to bring some certainty to future exchange rates, or simply to indulge in some profitable arbitrage.

Mr Joachim Schmidt, the missing Frankfurt foreign exchange broker, is believed to have been involved in the affair between VW and the National Bank of Hungary. He is still being sought by German public prosecutors.

By going to the courts, the National Bank of Hungary wants to establish that VW has no legal claims against it. The bank has taken out a "negative Feststellungsklage," a German legal device which asks a court to determine that certain facts—or claims—are incorrect or have not taken place.

Europe's biggest car manufacturer and the National Bank of Hungary meet in the civil courts in a dispute that will be long, expensive for both parties—and may highlight legal divisions between East and West

The claims in question are that banks share some of the responsibility for the currency manipulation — and, by implication should bear some of the cost.

By bringing the action over only one of the contracts, for DM 63m, rather than all eight, the bank is simplifying matters for both sides and minimising its risks. A test case will set a precedent for the other deals, and will save money for both parties — and especially the bank, which, as plaintiff, has to cough up advance costs.

Even before a judgment is reached, the legal costs involved will be extremely high. Costs in the German courts depend entirely on the size of the sum at issue. In this DM 63m case costs and fees for both sides will be some DM 1.75m.

VW has responded by bringing a "Wiederklage," a counteraction, against the bank. The company, while claiming it is not pursuing the Hungarians as such, is arguing that to not bring a counteraction would be interpreted as a sign of legal weakness.

"That is only partly true," says a prominent German lawyer. "A Wiederklage is a rather helpful device with some interesting procedural aspects too, notably regarding jurisdictional problems and possible immunity." The question of jurisdiction could become extremely important. Should the bank lose and VW press for compensation, the question of German law's applicability could become a key issue in a case involving a state institution from an eastern bloc country.

VW's lawyers appear undaunted by the reports that Mr Burkhard Junger, the company's former chief foreign exchange dealer, who is in custody in Braunschweig, has admitted complicity in the fraud and has also implicated Mr Schmidt—but has denied that the Hungarian bank was involved.

The car company insists that it is not entirely clear what Mr Junger has said, therefore the case—brought by the Hungarians anyway—goes on. VW may also be hoping to attach some responsibility to the bank, irrespective of Mr Junger, by arguing, for instance, that record keeping or control procedures in its foreign exchange department were not up to scratch.

The case is likely to be both long and expensive. Lawyers say the case is almost certain to go to appeal, and very possibly to the Bundesgerichtshof, the German federal court of third instance in Karlsruhe, too. Just taking the case to the Oberlandesgericht, the state high court, will add a further DM 2.18m to the bill. And should it come to an action for the entire DM 382m, the legal costs become astronomical; DM 10m in the first instance, and another DM 13m for the Oberlandesgericht.

But VW can hardly press for the full DM 382m if the Hungarians lose their case, since some of its own staff were involved in the manipulation. When VW first released the news of the fraud earlier this year it made clear that it hoped to be able to recover some of the money, and that DM 473m was a ceiling.

Since then, VW has had some limited success. In June, it embarked on legal steps in Switzerland to freeze some of Mr Schmidt's assets, and took took out four summons against him totalling DM 40m. Similar action to freeze his assets has been taken in Liechtenstein and Germany.

Exactly how long the present case will last, is not clear. Although the Hungarians would probably like a quick solution to clear their name, the affair could drag on. Media attention can only grow should the hearings come to include a cavalcade of banking specialists, company big-wigs — or even Mr Junger himself — parading before the tribunal.

Brazil's projected trade surplus for 1987 rises

BY ANN CHARTERS IN SAO PAULO

BRAZIL'S projected trade surplus for the year has risen to $9.6bn (£5.84bn) from $8.7bn, the national foreign trade agency Cacex having revised it on the strength of the August surplus being $1.43bn.

Exports totalled $2.75bn, with vehicles contributing $230m and soya beans and derivatives $279m. Imports were $1.32bn. The August 1986 surplus was $949m.

The new projection is based on the presumption that Brazil will have an average monthly trade surplus of $790m for the rest of the year. Mr Namir Salek, Cacex director, indicated that the target took into account increases planned for imports, which are already 14 per cent ahead of the levels of January-August a year ago (excluding petroleum and wheat).

Cacex has been under pressure from industry to free imports of capital goods and of products used as components or in manufacturing for export. The agency said that, starting next month, the backlog of applications for import licences should be cleared up.

About 2,500 products are expected to be removed from a list of 4,500 suspended imports as of tomorrow, those restored being likely to include materials for exporters' manufacturing.

Exports for the first eight months of the year were $16.29bn, down 1.8 per cent on the 1986 level. The Central Bank announced the expansion of funds available for export credit from $300m to $800m, so as to facilitate finance for companies which are having difficulty arranging credit with private international banks due to Brazil's moratorium on service of its foreign debt.

Brazilian land minister appointed

By Our Sao Paulo Correspondent

BRAZIL's new Minister of Agrarian Reform and Development, Mr Jader Barbalho, former governor of the northern state of Para, is to take office on Tuesday. He succeeds Mr Harcos Freire, who was killed in an air crash two weeks ago.

Mr Barbalho will take up the enormous task of settling landless farmers and resolving land disputes in connection with the government's ambitious and slow-moving programme to place 7.1m landless families on their own plots by 2000.

He was appointed at the weekend by President Jose Sarney and will be the fourth person in take the post

Para is one of the most conflictive states in the country, the scene of violent land disputes involving rural labourers, poor migrants seeking land, and gunmen hired by landlords. As an opposition party politician since 1966 and governor from 1982 to 1986, the new minister is well acquainted with the problems of agrarian reform in the state.

Mandela seeks to stop British TV film

MRS WINNIE MANDELA, the black South African anti-apartheid activist, has told her lawyers to stop British television showing a film on her life with her husband Mr Nelson Mandela, the nationalist leader, but the producers said yesterday it would be screened, Reuter reports.

Mrs Mandela, whose husband was jailed for life in 1964, told Johannesburg's Sunday Times: "This film serves no political purpose and was made solely for commercial reasons."

But a spokesman for producers Television South said the two-and-a-half-hour film "Mandela" would be seen in Britain and throughout the English-speaking world except in South Africa. "By the end of this coming week, the film will have been shown to the entire English-speaking world except for South Africa. The film will publicise their case and could be of tremendous value for the Mandelas," Mr Gordon Tucker of Television South told Reuter.

Bofors admits it paid SKr 319m to win contract

BY JOHN ELLIOTT IN NEW DELHI

BOFORS OF Sweden paid SKr 319m (£30m) to three foreign consultancy companies involved in helping it to win a $1.4bn howitzer contract in India. But neither Mr Rajiv Gandhi, Prime Minister, nor any members of his family, received commissions or payments from the company.

This was stated in New Delhi over the weekend by Mr Per Ove Moreberg, Bofors president, and Mr Lars Gothlin, senior-vice president, after they had been questioned by a parliamentary committee set up by the Indian Government to look into allegations that bribes were paid to Indian officials. Before appearing in front of the committee, they had long talks with top Defence Ministry civil servants.

They refused publicly to announce the names of the companies which they said were not Indian. But they said the names had been given to the Defence Ministry, which was expected to pass them to the committee. They denied Bofors had conspired to bribe anyone.

However, the visit of the executives has failed to quell a five-month political controversy in India over the bribery allegations, which have been a big factor in reducing the authority of Mr Gandhi's Government. The amount of money which the executives said had been paid considerably exceeds earlier reported figures.

Opposition politicians, who are demanding that the contract be cancelled if Bofors does not reveal all relevent names, suspect that the information handed over to the Defence Ministry will not reveal the precise identity of those eventually receiving any bribes.

The politicians are still pressing their allegations that members of Mr Gandhi's Italian-born wife's family may be involved. It is widely assumed in India that Mr Gandhi would have to resign if this were found to be true.

Mr Morberg said the Skr 319m was paid to the three companies to terminate their services before their contracts had expired, in line with Indian government instructions that no agents were to be involved in the gun deal.

Usually Bofors paid 12 per cent commissions to consultants helping to win contracts. It had paid Skr 100,000 a year from 1978 to 1981 to Mr Win Chadha, its former Delhi-based agent, now living in the US, who the Indian Government wants for questioning.

The company executives said they did not expect the contract to be scrapped. Once the current controversy had been settled, they expected that the second part of the contract would go ahead for the transfer of technology to enable India to make the guns itself.

Swedish minister pledges tighter arms export curbs

MR STEN ANDERSSON, the Swedish Foreign Minister, said yesterday he would tighten weapons export procedures to prevent further smuggling scandals such as the one involving Bofors, the arms manufacturer, Reuter reports from Stockholm.

Speaking at the ruling Social Democratic Party congress, he said Swedish companies would not be allowed to sell abroad or draft preliminary contracts for arms deals unless government approval had been given. He promised to simplify the paperwork so that legitimate weapons deals would not be delayed by red tape.

He pledged that the Government would check sales details with clients rather than rely on Swedish suppliers.

On admissions by Bofors that it illegally sold weapons and explosives to countries blacklisted under Sweden's export laws, Mr Andersson said checks and controls had been ignored. "Greed has put honesty at a premium," he told the congress.

Bofors, Sweden's biggest arms maker, has been accused by peace groups of smuggling arms such as advanced laser-guided missiles and field artillery to warring states including Iran.

Swedish law forbids the sale of arms to states at war or in areas of strife. Police have charged a number of Bofors employees with smuggling explosives and inquiries are continuing.

Charges involving payments illegal in an effort to win a $1.2bn deal for field guns are a separate issue.

Surcharges for drought relief put at Rs 75bn

BY JOHN ELLIOTT IN NEW DELHI

TAX AND import duty surcharges designed to raise Rs75bn (£3.6bn) this year were announced over the weekend by the Indian Government to help finance drought and flood relief operations which the Finance Ministry estimates will add Rs13bn to government spending this year.

Surcharges of 5 per cent have been added to top rates of income and corporation tax and to a wide range of import duties. Wealth tax, together with domestic air and luxury train fares, have been raised with a 10 per cent surcharge.

This is the second package of measures introduced by the Government to offset the costs of an unusually serious drought, which is affecting up to two-thirds of the country, and heavy floods in the north and east of India. The aim is to protect a pledge made in February by Mr Rajiv Gandhi, the Prime Minister, that a high planned budget deficit of RS 56.88bn for 1987-88, which has caused some controversy would not be exceeded.

A week ago cuts in spending on items such as government travel and publicity budgets were introduced. These are expected to save Rs 6.5bn. Further savings are expected later to cover the remaining estimated Rs 750m of extra spending

Mr S. Venkitaramanan, the Finance Secretary, said on Saturday that the tax and duty surcharges had been designed to hit only the rich, sparing the middle and lower classes. This is in line with the Government's determination to try to protect the poor, who will be worst hit by the drought, and so reduce the risk of a further politically damaging controversy hitting Mr Gandhi's beleagured administration.

MILITARY HELP RULED OUT BY CONSTITUTION

Nakasone to offer Reagan Gulf fleet cash

BY IAN RODGER IN TOKYO

MR YASUHIRO NAKASONE, the Japanese Prime Minister, will offer financial assistance to US and other nations attempting to keep the Gulf shipping lanes open when he meets President Ronald Reagan today in New York.

However, Mr Nakasone will not offer military support, even though Japan gets more than half its crude oil from countries in the Gulf. The country's constitution rules out any overseas military operations.

The Nakasone-Reagan talks, which are scheduled to take place this afternoon after the two leaders make speeches at the United Nations General Assembly session, will cover a wide range of other issues, including the tense trade relations between the two countries.

Mr Nakasone's extended five-year term as Prime Minister comes to an end next month. Thus this will probably be the last official meeting between the two, bringing to an end a unique and important relationship in modern Japanese history.

For a long time, Mr Reagan was able to stave off protectionist pressures in the US Congress by saying that Mr Nakasone had promised him that Japan would change its ways. For his part, Mr Nakasone could tell his colleagues at home that they had to change because he had promised the US President personally that they would. And he used the Reagan connection to push hard for the reforms he knew were necessary—opening the country's markets to imports and restructuring the economy away from its excessive dependence on exports.

It did not always work. Resistance to change in Japan is very strong, and by last spring, when the US trade deficit was reaching new records, patience in Washington ran out.

Only a few days before an official Mr Nakasone visit to Washington in April, intended as Mr Reagan's thank you and farewell to the Japanese leader, the Administration slapped 100 per cent punitive tariffs on a wide range of Japanese imports in retaliation for alleged infringements of a bilateral semiconductor trade pact.

Within a few days of that visit, things got even worse when it emerged that a subsidiary of Japan's Toshiba electricals group had sold sophisticated machine tools to the Soviet Union. The tools were used to machine propeller blades for Soviet submarines, making the subs quieter and more difficult for Allied forces to detect.

Suddenly, the Japanese were under attack in the US not only for unfair trading practices, but also for "making it easier for the Russians to kill our boys," as one Congressman put it. The omnibus trade bill, which has been under discussion in Congress for months, began to acquire a distictly anti-Japanese flavour.

As often happens, these shocks galvansised the Japanese establishment into action. In the last few months, the Government has passed new laws for preventing sales of sensitive technology to the Soviet Union and has moved on a number of other fronts to restructure its economy

● A Y6,000bn (£25bn) economic stimulation package has been implemented, and is already having a positive impact on domestic demand.

● Legislation was passed on Saturday that would eliminate the Maruyu tax-free savings system, opening the way for abolishing fixed rates on small deposits in Japan. Foreign financial institutions have long complained about Maruyu because it provides Japanese banks with a large source of low cost capital, and prevents the emergence of competitive money markets in Japan.

● The Government decided last week that Japan's highly protected construction industry must be opened to foreign competition, saying it would invite foreign companies to bid for work on the planned Y1,150bn Tokyo Bay bridge project.

● The Japanese Defence Agency has backed down from its plan to design and build a new fighter aircraft, agreeing to a joint development project with the US.

Also, the Government has signalled its readiness to provide financial support for peace-keeping efforts in the Gulf, and plans for stepping up aid to the heavily indebted developing countries are taking shape.

As for Mr Nakasone, he may also seek to use the relationship one last time for his own purposes. He will probably assure the President that no matter who becomes the next Japanese prime minister, the country's policy course will remain the same.

● Mr Nakasone: personal promises to Mr Reagan.

Japan's Diet has passed legislation providing for tax cuts of Y2,200bn (£9.3bn) and the abolition of tax-exempt savings accounts, AP-DJ reports from Tokyo.

The bill was passed without major sales tax increases that had been its most controversial contents and had almost cost Mr Yasuhiro Nakasone, the Prime Minister, his premiership. The outcry against his plan spread to within his own party and he was forced to abandon the sales tax last spring.

The final version of the law called for tax cuts of Y1,540bn in income taxes and Y660bn in resident taxes. The reductions will be realised by simplifying categories of tax rates.

With the abolition of the tax-exempt accounts, under which bank customers were charged tax on interest earned from accounts greater than Y3m, a uniform 20 per cent tax will be levied from next April on interest earned from bank deposits and postal savings accounts.

Certain accounts, including those of people aged 65 and older, fatherless families and the handicapped will remain tax exempt.

Philippine radicals go underground

By Richard Gourlay in Manila

RADICAL, but legal trade unions and other militant groups have been going underground in recent weeks fearing a military crackdown.

Unidentified gunmen on Saturday shot dead a leader of a legal left wing coalition, hours after he announced activists would lead country-wide rallies and marches today against what they call the "resurgence of nationalist rule in the Philippines".

Mr Lean Alejandro, who was Secretary General of the New Patriotic Alliance (Payan) was believed to be one of the left-wing leaders trying to achieve political change, within the Parliamentary system, instead of through violence, like the communist-led insurgence.

Ten months ago the chairman of a militant trades union group, the Kilusang Mayo UNO was killed in a similar attack. No charges have been brought in that case and police said they had no idea who had committed this latest political murder.

The demonstrations today will commemorate the 15th anniversary of the declaration of martial law by former President Ferdinand Marcos. Troops in Manila went on priority red alert to prevent any trouble during the rallies and also to guard against rebel soldiers who led a failed military coup on August 28

New airline computer network

By Michael Donne

A BIG airline computer reservations system is likely to be created soon by Cathay Pacific of Hong Kong, Japan Air Lines, Qantas of Australia, Singapore Airlines and Thai International.

It would compete with the two similar systems being set up—the Amadeus group which includes Air France, Iberia, Lufthansa and Scandinavian Airlines System, and the Galileo group which includes British Airways, British Caledonian, KLM of the Netherlands, Swissair and United Air lines (Covia) of the US.

Like the other two, the new group will offer a complete range of airline reservations, hotel bookings, car hire and other facilities.

Mr Michael Miles, chairman of Cathay Pacific, said in London that each of the five airlines in the proposed new venture had been discussing the matter for some time, and a formal round-table meeting of the five would take place soon to discuss the next step. Although the new group would primarily bring together airlines in the Far East, south-east Asia and Australasia, it would be open to any other airlines

Mr Miles also revealed that Cathay Pacific was now looking for a new medium-range airliner to supersede its existing fleet of 10 Lockheed TriStars. Up to 10 new aircraft would be required, worth about £500m,

US-Canada pact on trades disputes likely

BY PETER MONTAGNON AND DAVID OWEN IN OTTAWA

FREE TRADE talks between Canada and the US enter their final phase today amid hopes here of a breakthrough in the key issue of dispute settlement, which has dogged the discussions since they began last year.

Mr Brian Mulroney, Canada's Prime Minister, has said he expects to know by Wednesday whether a deal can be achieved, although the talks themselves are expected to continue right up to the October 4 deadline imposed by the US Congress.

But it is already clear that any deal will fall short of providing the binding and impartial arbitration arrangement for trade disputes originally sought by Canada, to protect its business from what it perceives as the capricious and unpredictable application of US trade law on dumping and countervailing duties.

Instead, the negotiation teams, who convene in Washington today, will be looking at the introduction of a "safe harbour" concept for subsidies, under which certain types of subsidy would be deemed legitimate and outside the reach of existing trade legislation.

This would allow Canada's federal and provincial governments to retain politically sensitive rights to finance regional and infrastructure development.

An independent commission would be set up to examine grey area cases. Each country would be free to use existing trade law to take action against subsidies that fell outside the safe harbour definition.

US willingness to consider such an aprpoach has raised hopes here that the deal may be attainable. But a solution has yet to be found to the equally tricky question of anti-dumping actions and US protection of industries threatened by a sudden surge in imports.

Moreover, the outspoken reservations of Mr David Peterson, Liberal Premier of Ontario, have underlined the fact that the limited deal now in prospect may be hard to sell within Canada.

This is expecially true since Canada has given ground in other areas of the talks without gaining much return. Canadian financial market liberalisation has allowed US banks to own securities companies here, yet, because of the Glass-Steagall Act, reciprocal arrangements cannot apply in the US.

The most that is now likely to come out of discussions on financial services is an assurance from the US that Canadian firms will share in any erosion of Glass-Steagall, and that branches of Canadian securities companies may be allowed to continue to operate south of the border, even if they are bought by US banks.

Ottawa-UK air pact

CANADA and Britain have announced a new long-term air services agreement that has averted a disruption of commercial flights between the two countries, Reuter reports from Ottawa.

Service had been threatened by a protracted dispute over terms of a new bilateral agreement to succeed one that was due to expire at midnight on Friday.

The new agreement allows unlimited access and frequency of flights between each country and should result in lower fares for the travelling public, Canadian federal transport officials said.

Airlines in both countries will be free to set prices at low levels, travellers will face fewer booking restrictions and shippers will be able to take advantage of deregulated air cargo rates, the spokesman said.

EC stake in Portugal expands

By Our Lisbon Correspondent

FOREIGN INVESTMENT in Portugal increased by 150 per cent in the first eight months of 1987, as European Community partners, led by Spain, showed growing confidence in the most rapidly expanding economy of the 12 states.

Investment from EEC countries, accounting for 71 per cent of the total, more than tripled compared to the equivalent period in 1986, the year Portugal joined the Community. Total foreign investment this year reached Esc35bn (£149m) at the end of August, up from Esc14.3bn in the equivalent period last year.

Spain is leading the surge, its investment having increased more than fourfold to Esc8.8bn. Britain has fallen to second place at Esc7.6bn, but investment from France and West Germany, at Esc2.6bn apiece, is increasing at a faster rate.

Capital transmitted to foreign banks accounts for the greatest amount of investment, followed by hotels and restaurants, the sector where British touristic enterprises are the leading investors.

The upsurge in Spanish investment partly reflects a move by companies to head off a potential challenge from Portuguese exporters to the Spanish market.

Ian Davidson assesses a turning point for Unesco

Seeking a new ideas chief

THE LONG struggle for the soul of t he United Nations Educational Scientific and Cultural Organisation moves into a new cliff-hanging phase tthis week with the penultimate manoeuvres for the nomination of a new director-general.

On Wednesday, the 50-member executive board of Unesco wil open a session which is expected to end on October 6 with a vote to nominate the new chief executive.

This will be subject to confirmation by the general conference of all the member states in a vote on November 7. The outgoing director-general—Mr Amadou Mahtar M'Bow, the controversial Senegalese who is completing his second term, with a total of 13 years in office—has repeatedly declared that he is not seeking a third term.

However, his disavowals have consistently and ostentatiously stopped short of a categorical refusal to serve if elected. None of the candidates so far nominated seems able to count on even a bare majority of the votes in the board, let alone a further majority in the conference, so experienced observers assume that, in the absence of some surprise, Mr M'Bow will be put forward as a last-minute candidate.

The outcome of this election may well turn out to be crucial in deciding the long-term credibility of Unesco, whose reputation has been tainted by accusations that it has been used by some developing countries and by the Soviet bloc in a sniping campaign against the West. In 1984, after long complaints, the US (which provided a quarter of the organisation's budget) withdrew from membership. It was followed a year later by the UK.

It seems clear that, for the US and Britain, the election of a new director-general would be required before they would review their attitudes to Unesco.

Developing countries want fairer exposure in the world's press

In policy terms, the controversy over Mr M'Bow's conduct of Unesco's affairs has focused particularly (but not exclusively) on Unesco's support for the idea of a New World Information Order. This has been widely interpreted in the West as an attempt to subordinate press freedom to the interests of states in the developing world, but the idea is justified by developing countries as an attempt to give them a fairer exposure in an international press which they see as heavily weighted in favour of the west.

Some of Mr M'Bow's critics accuse him of maladministration and mismanagement, and insinuate that he needs re-election in order to prevent public examination of these accusations. He has vigorously rejected the imputations, and has claimed that the charges are merely a cloak for an ideological campaign long waged against Unesco by the right-wing Heritage Foundation in the US.

The eight candidates officially designated so far include: Dr Ivo Margan of Yugoslavia, chairman of the executive board of Unesco; Mr Nikolai Todorov of Bulgaria, chairman of the general conference; Mr Alfonso Barrera Valverde, former foreign minister of Ecuador; Mr Victor Sa Machado, former foreign minister of Portugal; Mr Soedjatmoko of Indonesia, former rector of the UN University in Tokyo; and Gen Sahabzada Yaqub Khan, foreign minister of Pakistan. A late edition to the list will be Prof Federico Mayor, former Spanish education minister and once deputy director-general of Unesco.

Some observers believe that the final choice will lie between Gen Yaqub Khan and Prof Mayor, unless the African states (who have declared their continuing support for Mr M'Bow) formally propose his re-election. Supporters of Mr M'Bow whisper that he could become a compromise candidate, by ofering to serve only for two years rather than for the normal six-year term,

SHIPPING REPORT

Freight level decline continues

By Lynton McLain

FREIGHT LEVELS in the world tanker markets continued to fall last week, despite expectations by some tanker owners that the recent slide had bottomed out.

Nearly all sectors of the market witnessed lower freight levels. In the Gul, where there were more cargoes available, an over-abundanceof suitable vessels resulted in a buyer's market.

Galbraith's, the London brokers, said on Friday: "We are of the belief that rates for September loaders will not fall any further and may increase if we see some more inquiry, as availability is beginning to thin out." Freight rates for medium-siz etonnag ehave remained reasonably stable, but are dropping marginally.

BP chartered a vessel of 77,000 tons, loading in the Gulf and filling up in Indonesia for Australia at Worldscale 90.

West Africa saw reasonable activity last week, but a strong availability of vessels kept rates down and several US charterers were able to take 1m barrel size vessels for discharge in the US at Worldscale 50 or below.

Freight rates have shown some softer trends recently, the sale and purchase market remained "firm and optimistic" last week, certainly for the immediate future, Galbraith's said. Panamax and Cape-sized bulk carriers were still in demand, but prospective buyers were hampered by the lack of good quality available tonnage.

Companies in Norway were the mostactive market buyers, again.

Irish export record for year

By Our Dublin Correspondent

TRADE FIGURES for the Irish Republic, released at the weekend, show the country's exports for a 12-month period naving risen past Ir£10bn (£8.73bn) for the first time, with a record trade surplus for the year ended August 1987 of Ir£1,160m.

However, in a cautious welcome for the improvement, Mr Seamus Brennan, junior Trade Minister, noted that native Irish exporters were not performing well. He said the bulk of the improvement had its roots in good performances by multinationals based in Ireland, and by the food sector.

Irish imports for the year ended August 1987 totalled Ir£8.932m, with exports at Ir£10,092m. Equivalent figures for the previous year were Ir£8,738m and Ir£9,931m respectively. The surplus for 1987 was Ir£775m—an improvement of more than 30 per cent on that of the previous year.

In his first speech on the economy since thes pring, Mr Charles Haughey, Irish Prime Minister, said at the weekend that the planned reduction in public borrowing was on target and his government intended a further reduction next year.

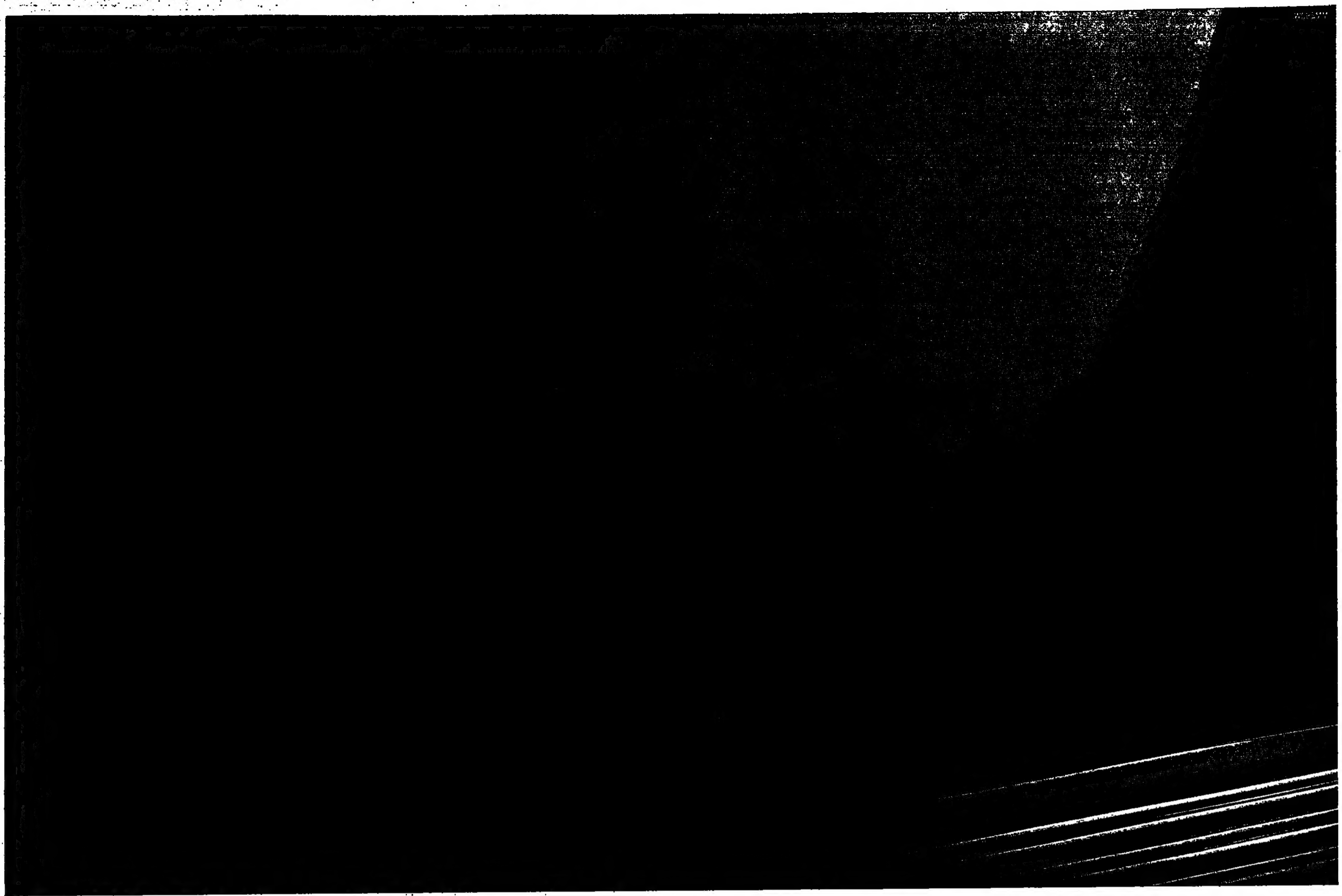
The trade figures come at the end of a week in which the cost of living index was shown to have risen by only 3.2 per cent over the 12-month period. Housing was the only item to show a major price increase during 1987 and, taken overall, Irish inflation is now well below comparable figures abroad.

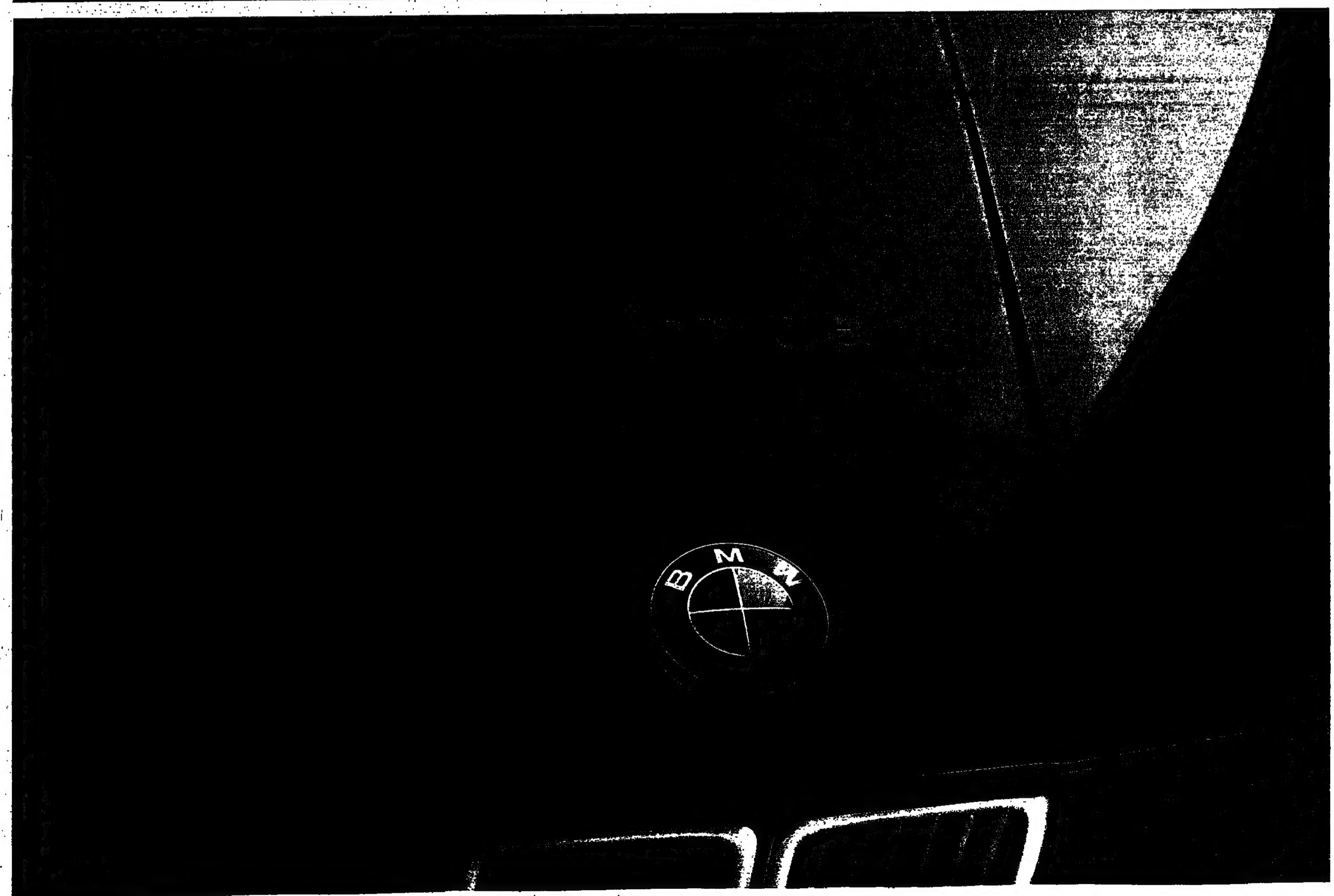
WORLD ECONOMIC INDICATORS

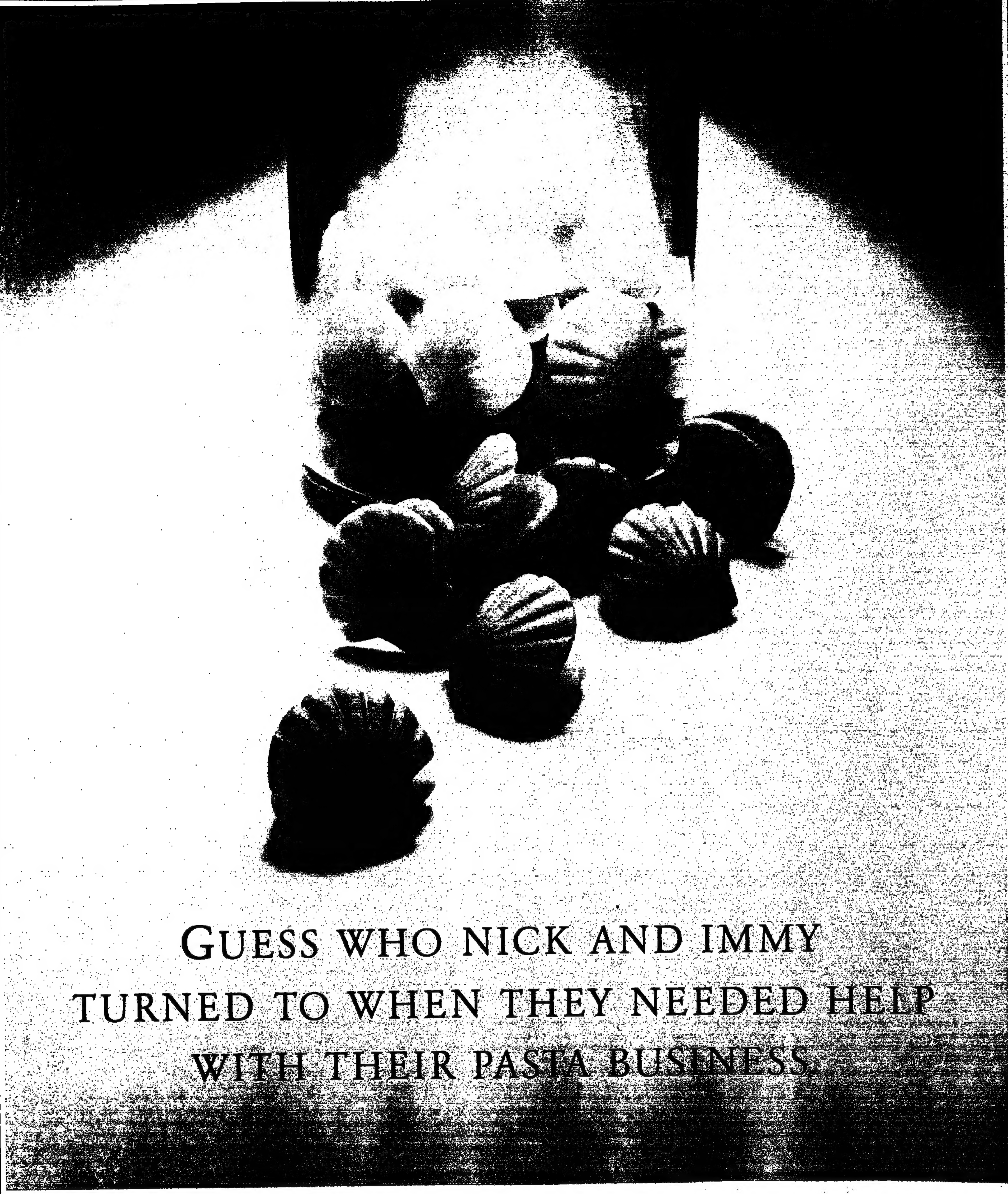
FOREIGN EXCHANGE RESERVES (US$m)

	July 87	June 87	May 87	July 86
US	13,472	13,982	14,422	16,147
UK	25,648	25,395	25,667	11,676
W. Germany	55,022	56,320	57,360	39,607
Japan	64,508	63,952	63,638	33,778
Belgium	7,238	6,919	5,981	4,857
Netherlands	12,240	12,069	11,506	10,238
Italy	19,271	20,635	21,977	19,098
	June 87	May 87	Apr. 87	June 86
France	29,149	28,436	30,429	32,084

Source: IMF




BMW



Tuck into *Rigatoni* at 'Basta Pasta', and you'll think you're in the Piazza San Marco, not the Piccadilly Plaza Manchester. The place, run by Nick Franchini and Immy Deshmukh, serves some of the best fresh pasta in the North-West.

(OK boys, that's your advertisement over with.)

Today, 'Basta Pasta' is doing quite nicely, grazie, but a few years ago it was just a dingy basement with a second-hand pasta machine.

That was before Nick and Immy wrote to Livewire, a scheme set up by Shell in 1982. Livewire's aim is to help young people create their own work, and over the years it's given a leg-up to thousands of small businesses, co-operatives and community projects. As it's grown, other sponsors have come in as well.

Although Livewire gives cash prizes for the most enterprising ideas, it also hands out something that's more important than money.

Practical advice. Everyone who joins in is linked up with their own business adviser to help get the project off the ground or grow bigger.

These advisers are professional people who give up some of their time to sort out the nitty-gritty of premises, production, finance and marketing.

If you've a business idea, you're 16-25, and you could do with this sort of help, write to Livewire, Freepost, Newcastle-upon-Tyne, NE1 1BR.

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YOU CAN BE SURE OF SHELL

SDP-Liberal talks expected within 10 days

BY MICHAEL CASSELL, POLITICAL CORRESPONDENT

THE FIRST session of talks between representatives of the Liberal Party and the Social Democratic Party aimed at creating a new party are expected to take place in the next 10 days, after the nomination today of the SDP negotiating team.

The SDP national committee will meet in London to choose its negotiators and both sides hope to get together as soon as possible to maintain the pro-merger momentum established at last week's Liberal party assembly.

Dr David Owen, former SDP leader, yesterday re-emphasised his outright opposition to the plan to form a new party by calling on wavering SDP members to join the anti-merger camp.

David Owen: encouraged by grass roots campaign success

In a message to SDP regional organisers opposed to the merger move, who met yesterday in Birmingham, Dr Owen said it was clear that sufficient party members were clearly prepared to fight for its survival.

Dr Owen said he was encouraged by the success of the grass-roots campaign and said that any member of the SDP who wished to remain a social democrat knew they would be able to do so. "The only remaining question is how many more of the uncommitted members will vote for the SDP when the merger negotiations are complete," he said.

The SDP national committee is expected to decide on a negotiating team that mirrors the Liberal team elected on the last day of the Harrogate assembly. Anti-merger members of the national committee, including Dr Owen, have said they will abstain from the selection process.

The team will be drawn from the national committee and the ruling Council of Social Democracy. It will include not only those who voted for a new party but some party members, such as Mr Robert Maclennan, the new SDP leader, who originally supported closer ties with the Liberals rather than complete unification.

It is not yet certain whether Mr Maclennan will, like Mr David Steel, Liberal leader, stand back from playing any direct role in the talks and instead nominate a personal representative. His position will be made clear later today when he and Mrs Shirley Williams, SDP president, announce their team.

Mr Steel's team includes eight party members elected by last week's assembly, three party officers, including the leader's nominee, and representatives from Scotland and Wales. The elected members include some Liberal activists, upon whom Mr Steel cannot rely for unqualified support when the ballot on creating a new party is held, probably next February.

Canadian route open to more airlines

By Lynton McLain in London and David Owen in Toronto

BRITAIN AND Canada have agreed on a more liberal air services accord which opens the transatlantic market between the two countries to any designated UK or Canadian airline for the first time.

Before the agreement, reached on Friday, only British Airways and Air Canada had rights to fly scheduled services between the countries under the 1949 air services agreement.

The new accord is one of the most liberal covering long-haul flights between the UK and another country.

Mr Paul Channon, Transport Secretary, said: "The new agreement sweeps away a whole raft of outdated regulatory controls and opens up wide ranging opportunities for UK airlines in our second-biggest long-haul market."

Mr Joe Clark, Canadian External Affairs Minister, said: "The agreement provides airlines with opportunities for growth and establishes a durable framework for the future."The agreement gives all designated scheduled airlines on services between the UK and Canada the right to:

- Enjoy free access to all airports in each country available for long haul flights.
- Determine their own capacity route by route for bilateral services.
- Determine their own passenger tariffs within a liberal arrangement of tariff zones, to be reviewed after 18 months with a view to this being replaced by an even more liberal regime.
- Freely determine their own cargo rates.

Also, under the agreement, UK airlines have gained rights to carry traffic between Canada and the US on 14 flights a week; between Canada, Mexico, the Caribbean and central America on four flights a week and between Vancouver and New Zealand via the Pacific on two flights a week.

Air Canada retains the right to carry traffic between the UK and Europe on 10 flights a week and between the UK and Bombay and Singapore on four flights a week.

Lucy Kellaway on the complications of arranging the electricity industry for privatisation

Encouraging the vital spark of competition

NO MATTER how the Government chooses to carve up the electricity industry for its passage into the private sector, it will be left with at least two businesses that are natural monopolies - power transmission and distribution - and a third - power generation - in which competition is possible in theory but may be elusive in practice.

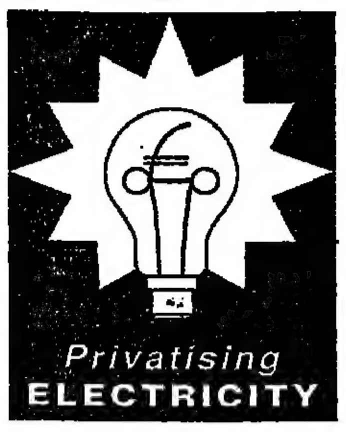
The success of this latest privatisation exercise depends very much on solving the biggest and most complicated regulatory problem the Government has faced so far.

It must devise a system, both broad and precise, which will encourage competition where it is possible. Where it is not, regulations must give protection to the consumer - while at the same time keeping investors happy.

Regulating private monopolies is complex both in theory and in practice. Even in the US, where experience is longest, the regulatory machine which controls the private electricity industry has been much critised for neither granting effective protection to consumers - who are resentful of large increases in prices - nor facititating competition.

In the US, electricity utilities are subject to several tiers of regulation. A policaly appointed state commission regulates the price charged for electricity, and the maximum rate of return, and effectively controls the amount of capital available to the industry. The commissioners also deal with consumer complaints. A federal committee oversees transfers of electricity across state lines.

The result is a system which opens the utilities' business to public view and is highly litigious. Utilities usually cannot pass through the cost of a new power station until it is in operation and certainly not before a tarif increase has been sanctioned by the commission.



Since the commission can disallow an increase, if it judges the investment ill-judged or mismanaged, utilities tend to ask for detailed permission before making any important investment decision.

In West Germany the problem has been too little rather than too much regulation and the Government has recently stepped in to tighten and centralise a highly fragmented system which was not giving adequate support to consumers.

It was to try to avoid the problem of over-regulation that the UK embarked on a novel route for controlling its newly created private monopolies.

It devised a system intended to be effective, simple and to allow the company more scope to run its business. Instead of regulating profits it decided to control prices, using an "RPI minus X" formula, which would be subject to revision every few years.

The consumer was protected, with price increases kept below the level of inflation, while the company was giver an incentive to make more profits by dint of becoming more efficient.

With a track record of just three years in the case of British Telecom, and less than a year for British Gas it is perhaps too early to judge the British approach. Recently, however, the signs have not been encouraging.

In the last few months, record profits at British Telecom have proved embarrassing against a continuous roar of complaint over the quality of its service. Meanwhile, the Office of Gas Supply, the body which regulates British Gas, last month narrowly avoided calling in the Monopolies and Mergers Commission over British Gas's refusal to provide it with vital information.

The public discontent with the record of private monopolies so far will make it all the more important for the Government to get it right this time. The electricity industry has more dependent customers than either gas or BT, and, unlike them, it actually makes what it sells, adding a further dimension to the problem.

In spite of the recent furore, the Government is not likely to stray far from its chosen regulatory path. However, if it heeds the advice which is likely to be supplied by Professor Bryan Carsberg, head of the Office of Telecommunications, it may opt for a much more elaborate and responsive version of the RPI minus X formula.

When the Telecom formula comes up for review in next year - a process which will almost certainly take place under the auspices of the Monopolies and Mergers Commission - it is likely to emerge a much more complicated animal.

At present British Telecom can increase its profits by dint of offering a poorer service, and if volumes increase merely as a result of a general rise in activity it will reap windfall profits. Both objections would apply to a private electricity industry.

Prof Carsberg has also pointed out that the real distance between a price and profits regulation is short, and has suggested that that could be explicitly acknowledged by incorporating an element of profit regulation into the price formula.

The advantage of price regulation is that it gives the industry time and incentive to increase profits by becoming more efficient before the formula is reviewed.

The advice likely to be given by Mr James McKinnon, head of Ofgas, following his confrontation with Sir Denis Rooke, may demand less action from the Government.

While critics have argued that the dispute demonstrated the inadequancy of a system which depends on the pugnacity of the regulator, and which swings from one crisis to another in the pursuit of information, Mr McKinnon maintains his conflict was a one-off and argues that he has ample powers to perform his task properly.

In devising regulation for transmission and generation, the Government will be breaking new ground. The regulation chosen will naturally depend on the structure the privatised industry is to take - the more competition introduced, the less need for regulation. Even so, failing the creation of a spot market for electricity, some mechanism will be needed to ensure that competing players have fair access to the grid.

Here, the precedent set by gas is not encouraging. While in the US the price that utilities charge for carriage is laid down precisely by formula, in the UK no such formula exists, and Ofgas acts as an umpire, charged with "enabling" competition. However, nearly a year has passed since British Gas was privatised, and still not one oil company has signed up to transmit its own gas through the network.

Mr McKinnon disowns responsibility for this uncompetitive outcome. "If there is no competition, do not blame us, do not blame the Government, do not even blame British Gas. Blame the suppliers who are not prepared to take a chance on it," he says.

One cannot help wondering that if the oil companies, wich have plenty of gas at their disposal, are disinclined to break into the game how the new electricity entrepreneurs, who will have to make huge capital investments, are going to fare.

INDEPENDENT electricity producers, which claim they are denied satisfactory access to the National Grid by the monopolistic pressure of the official electricity industry, have formed a group to ensure "fair competition" with the Central Electricity Generating Board following privatisation, writes Maurice Samuelson.

The Association of Independent Electricity Producers will be based at the London office of Orchard Partners, a civil engineering consultancy which has long favoured greater use of combined heat and power stations, which maximise their efficiency by selling "waste" heat as well as electricity.

The association claims to have a "broad spectrum" of members, including operators of industrial co-generation plant, wind and hydro-electric turbines and small combined heat and power plants.

It says small modern generators of electricity close to the point of use are much cheaper and three times as efficient as traditional large stations favoured by the CEGB.

However, such schemes are allegedly inhibited by the way the CEGB formulates its tariffs

Commercial rating plan draws 100 submissions

BY PAUL CHEESERIGHT, PROPERTY CORRESPONDENT

MORE THAN 100 submissions have been received on Environment Department proposals to bring about big changes in the commercial rating system. They were still arriving on Friday, the last day of a consultation period.

The proposals deal with the way in which the first reassessment of the rateable value of non-domestic property in England since 1973 would be carried out. This is a prelude to the introduction of a uniform business tax in 1990.

Department officials, who have not yet been able to give detailed consideration to the submissions, noted that they appeared for the most part to deal with practicalities.

There has been criticism in the property sector that the yellow paper, which contained the proposals for the reform of the rating system, was circulated much too narrowly. It was sent to 60 organisations, including some local authorities, companies and professional advisers.

Published submissions are critical of the Government's proposals to limit the rights of appeal against rating revaluations and the end of concessions whereby only half of a rates increase need be paid if an appeal has been registered.

The revaluation of properties, for the purpose of the introduction of the uniform business tax, will be based on the worth of the property next April.

Harrods orders distribution centre for £20m

By Andrew Taylor

HARRODS, the department store in Knightsbridge, London, is to spend £20m on a computerised distribution centre at Osterley, Middlesex. The store is undergoing a £200m refurbishment.

The 20,500 sq metre Osterly centre will handle the processing and despatch of goods to customers all over the world.

It will take over some of the functions of the store's furniture depository - a well-known landmark at Barnes on the banks of the Thames - which is to be redeveloped.

Trollope & Colls, part of the civil engineering division of Trafalgar House, the construction, shipping, hotels and property group, has won a £10.5m contract to build the Osterley centre.

Harrods, which is owned by the Al-Fayed brothers, intends to spend nearly another £10m on fitting out.

Iron and steel consumers urge opposition to quotas

BY NICK GARNETT

THE IRON and Steel Consumers' Council has urged Mr Kenneth Clarke, Industry Minister, to oppose any continuation of a quota system.

In a written submission the council says that if quotas have to continue, the European Commission's proposals must be modified "so as not to penalise community steel users generally, and particularly users in buoyant markets such as the UK or efficient and financially viable producers such as the British Steel Corporation."

The council is opposed to loading part of the social cost of closures of steel producers on to producers. This would damage the community's steel-using industries' competitiveness in world markets, it says.

The council argues that if quotas are to be retained, the tonnage output performance of steel companies this year should be taken into account.

Jobless urged to start businesses

THE FIRST stage of a national programme to encourage the long-term unemployed, including many ex-offenders, to set up and run their own businesses will be launched this week in Norfolk.

The Head Start scheme will be open to some of the 16,000 unemployed on the MSC-funded Community Programme run by the National Association for the Care and Resettlement of Offenders.

Set up by the Industrial Society, which recently ran a pilot scheme in Birmingham, Head Start will initially be open to 700 participants in Norfolk, Suffolk, Essex and Cambridgeshire and will be extended to all 15 Nacro Community Programmes.

Child benefit 'threatened'

BY MICHAEL CASSELL

LABOUR is to challenge the Treasury to deny that it is pressing for cuts in child benefit payments during the latest round of public spending discussions.

Mr Robin Cook, Labour's spokesman on social services, claimed that child benefits were under attack. His remarks followed weekend speculation that present benefit levels could either be frozen or taxed

Mr Cook said he intended to challenge Mr John Moore, the Secretary for Health and Social Security, to state that he would defend benefits

He added: "The introduction of child benefit was one of the great reforms of a Labour government. It is ironic that it should now be under attack from a government which has pushed two million children below the poverty line".

The Treasury declined to comment on what it described as a speculative report.

Private prisons idea attacked

BY ALAN PIKE, SOCIAL AFFAIRS CORRESPONDENT

PRIVATISATION of prisons would create a powerful lobby with a vested interest in high prison populations, Mr Stephen Shaw, director of the Prison Reform Trust, argues in a Fabian Society pamphlet published today.

Private companies, he says, would have an economic interest in lengthening prison terms, and in time would exert a political influence that would subvert the making of penal policy.

"It would be totally unacceptable for private concerns to be involved in decision-making on such matters as prison discipline, home leave and parole, which directly determine the length of a prison sentence."

Applying the profit motive to prisons would mean that financial questions took precedence over humane prison regimes, decent standards and staff safety. "The result will be prisons run with the maximum of technology and the minimum of human contact, he says."

Lord Caithness, Home Office Minister, has been touring the US this month gathering information about private prisons and last week Sir Robert McAlpine and John Mowlem, construction companies, decided to set up a joint company to examine the possibility of building and managing private prisons in Britain.

Mr Shaw argues that private prisons would not be publicly accountable. He says evidence of that is provided by the Harmondsworth immigration detention centre near Heathrow Airport, which is run by Securicor.

Parliamentary questions about it were "frequently dodged by arguing that the terms of the contract between the Home Office and Securicor are matters of commercial confidence."

He says there is little evidence that private prisons in the US are cheaper to run or provide better conditions.

Since the Government came to power in 1979, says Mr Shaw, it had done nothing to overcome the crisis in Britain's prisons. Instead of considering privatisation and building new prisons the Government should reduce the number and length of prison sentences.

He calls for the establishment of a Sentencing Council to reform sentencing.

Conviction Politics: A plan for penal policy. Fabian Tract 522. Fabian Society, 11 Dartmouth Street, London SW1H 9BN. £1.50.

UK NEWS

Output in manufacturing still rising, says CBI

BY PHILIP STEPHENS, ECONOMICS CORRESPONDENT

MANUFACTURING output in Britain is still rising strongly, although a weakening in export orders means that the pace of growth has decelerated, the Confederation of British Industry reports today.

The organisation's latest monthly trends survey, which covered 1,479 companies in the manufacturing sector, shows that domestic order books remain buoyant. Nearly 40 per cent of companies expect their output to rise during the rest of 1987, against just 9 per cent predicting a fall. The remainder are forecasting that their production will stay at around existing levels.

The survey follows publication last week of official figures showing manufacturing output rising at an annual rate of between 5 and 5.5 per cent in the three months to July.

That pace is expected to slow in coming months, but the CBI results indicate that the direction will remain upwards.

Evidence that industry can now expect what the employers' group calls a "steadier rate of growth" is reflected in a slowdown in export orders.

Mr David Wigglesworth, chairman of the CBI's economic situation committee, said the trend reflected the strengthening of the pound in recent months and severe competition in overseas markets.

He coupled that with a call for the Government to consider a cut in interest rates to preserve industry's competitive edge. "The intensity of international competition means that we shall have to continue to fight hard for new orders and there continues to be a strong case for reducing UK interest rates.

"There is certainly no need to keep borrowing costs in Britain higher than those of our major competitors because of fears of our economy overheating,' he said.

The competitive pressures appear to be holding down increases in factory gate prices, despite rising costs for fuel and raw materials. This month some 23 per cent of companies said they expected to raise their prices, compared with 27 per cent in August.

The CBI believes that this reinforces the case for a cut in interest rates, but officials indicated last week that such a move was out of the question for the time being at least.

Analysis, Page 14

Scargill presses for tougher pit action

By David Brindle

THE OVERTIME ban in Britain's coalfields begins today with Mr Arthur Scargill, leader of the National Union of Mineworkers, making no secret of his desire to see tougher action imposed at an early stage.

After the Durham NUM area at the weekend joined Yorkshire in pressing for stronger sanctions, Mr Scargill said: "This confirms the view that the rank-and-file is calling for a harder line."

He is thought to have been against the majority decision of the union's national executive committee last Thuraday to apply only a limited ban, which practically guarantees five-day coal production, in protest at British Coal's disciplinary code.

Mr David Guy, Durham NUM president, said: "Even the coal board envisaged tougher action."

However, Durham is not backing Yorkshire's hard line. Instead, Mr Guy said his area was looking for a total ban on all forms of midweek overtime and all holiday period work.

This reluctance to go along fully with Yorkshire indicates the difficulties Mr Scargill will have in winning broad support for a common stronger line against the disciplinary code.

Thorn EMI to expand rental operations in N. America

BY DAVID THOMAS

THORN EMI, the UK electronics and retailing group, is planning to expand its rental operations in North America, on the back of its £371m acquisition in July of Rent-a-Center, a leading US consumer electronics rental chain.

Thorn also intends to win extra discounts from some of the world's biggest consumer electronics manufacturers by organising its purchasing on a global basis for the first time.

These points were disclosed by Dr Jim Maxmin, head of Thorn's rental business, in its first detailed public comments since the Rent-a-Center acquisition.

Dr Maxmin said Thorn planned to open 170 Rent-a-Center shops in the US this year. At present, Rent-a-Center has 430 outlets of which 160 are franchised operations.

The aim was for Rent-a-Center to have 1,000 US shops by 1990, with the balance between directly-operated and franchised operations remaining roughly the same as at present.

Much of this growth would be organic, Dr Maxmin said, because 60 per cent of Rent-a-Center's present customers were first-time users of the chain, and half of these were renewing their rental contracts when they came up for expiry.

The Rent-a-Center management might also acquire small locally-based rental companies in the US, but the entire expansion would be funded out of the revenues generated by Rent-a-Center.

In addition, the chain intended to launch into Canada before the end of the year, initially on a franchise basis, in the Toronto and Ottawa regions. Its main competitor there would be Granada, another UK rental company, Dr Maxmin said.

Thorn was carrying out market research into the idea of launching a more upmarket rental brand in the US, possibly operated separately from Rent-a-Center which, like other US rental chains, gets most of its business from blue-collar workers.

The idea flowed from Thorn's policy for its rental operations in the UK and continental Europe, which was to try to change the traditionally down-market image of renting.

Commenting on the acquisition last week from Granada of five rental companies in continental Europe, Dr Maxmin said his prime objective was to consolidate these with Thorn's existing rental shops in continental Europe. He expected annual growth rates of up to 15 per cent from continental operations.

Dr Maxmin also revealed that he was about to ask his biggest suppliers - he mentioned Thomson of France, Philips of the Netherlands and JVC and Toshiba of Japan - for extra discounts arranged on a global basis on top of the discounts Thorn's subsidiaries already negotiate in each market.

Fresh bid to end opera pay dispute

By Jimmy Burns

THE MANAGEMENT of the Royal Opera House in London and union leaders are to meet today in a fresh attempt to find a settlement to the three-week chorus pay dispute which has disrupted the opening of the new season at Covent Garden.

The ROH said yesterday that it had hopes of a settlement which would allow performances to resume by Wednesday or Thursday.

Talks which continued late last Friday produced a further revised offer from the management which the company said had been accepted in principle by leaders of Equity.

Under the latest terms the ROH is believed to have built upon its basic offer of 4 per cent by raising allowances to bring the total pay package more in line with that offered by the English National Opera.

Warning on wage cost trends

BY OUR LABOUR CORRESPONDENT

THE RISE in average earnings may remain at or close to 8 per cent throughout next year, says an analysis of pay prospects published today by Incomes Data Services, the research group.

IDS also points to a worsening trend in unit wages costs - the measure of pay per unit of output on which government ministers have recently laid great emphasis.

Figures drawn together by the group suggest that the sharp improvement in unit wage costs since early 1986 has been almost entirely output-led. With the rise in output expected to slow, IDS says, "the news for the Government can only get worse."

In line with other recent surveys, the analysis says the level of basic pay settlements dipped last autumn but has since risen again to match last summer's range of between 4.5 per cent and 7.5 per cent.

'No advantage' in shares

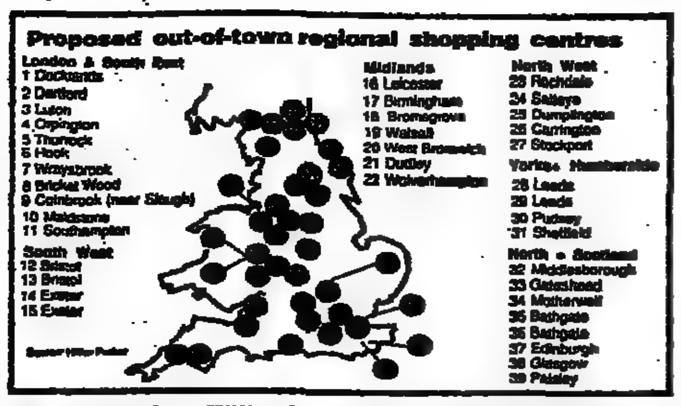
BY OUR LABOUR STAFF

EMPLOYEE share ownership has "no intrinsic advantage" for workers when compared to other forms of investment, according to a report prepared for unions by the Centre for Alternative Industrial and Technological Studies.

The report assesses a hypothetical investment of £2,460 in each of the 20 biggest UK companies over the period 1983 to 1986 and concludes that workers could just as easily lose - by up to £590 - as gain, by up to £770 before tax.

Paul Cheeseright examines a draft circular on large retail developments

Shop policy wins planning approval



TOWN AND country planners, besieged by planning applications for big shopping developments throughout the country from Glasgow to Exeter, are taking some comfort from the Government's latest draft circular.

This circular sets down the latest policy for granting of planning consents to large retail developments. On an initial reading it tightens existing policy and brings a greater measure of clarity to what had become a messy planning situation.

The perception of many planners has been that big developments are outlawed in the green belt but outside that there is always a chance one might be approved.

This in turn has led to debate about the merits of permitting development outside town centres when other aspects of economic policy have been directed towards strengthening the centres.

The argument has been heated, dragging in local authorities, retailers and property developers. Lack of empirical evidence about the effect of out-of-town developments on city centres has helped to make it free-wheeling. However, at the end of the day it has always come back to land use.

Government critics have contended that the issues could not be settled on a local, ad hoc basis. A clear policy lead is necessary, they suggested, because market pressures could have grave social effects if the life is drawn out of established urban centres.

Further, the matter has become increasingly urgent because of the amount of planning applications in circulation. The latest figures from Hillier Parker, a firm of chartered surveyors, show that for shopping schemes each of more than 500,000 sq ft, a total of 42.5m sq ft is proposed, but not yet decided, for out-of-town locations and 20.5m sq ft for town centres.

Out-of-town, 5.4m sq ft was under construction while in-town 9.1m sq ft was under construction at the end of June, according to Hillier Parker.

Applications have proliferated in central Scotland, around Leeds, Manchester, Birmingham and along the M25 around London, but also affect Teesside, Bristol, Exeter and Southampton. A public inquiry into a series of proposals affecting the Manchester area starts tomorrow.

Government policy on these big retail developments is based on a July 1985 statement by Mr Patrick Jenkin, then Environment Secretary.

This makes clear that it is not the function of the planning system to inhibit competition among retailers - "commercial competition as such is not a land use planning consideration." It also notes however, that in certain circumstances developments could affect "the vitality and viability" of a nearby town centre and this should be taken into account.

This remains the Government's position. Where the draft circular goes further is in its re-statement of opposition to big developments not only in the green belt but in the countryside. Only very exceptionally would large shopping centres be acceptable outside urban areas.

Thus far the draft circular meets the criterion of bringing greater clarity to policy - no huge developments outside the towns. It has thus been welcomed by planners in the London area concerned about any siphoning of trade away from established high streets to locations around the M25.

What the Government appears to have done here is to stiffen protection of the countryside policy. It is apparently trying to ease development back into urban areas, which would be consistent with its urban regeneration policies.

It is at this stage that problems arise. In the opinion of some urban planners the Government is not offering any more guidance than it has done before on what should be permitted.

However, the Government is in a delicate position. It does not want to stifle urban development, especially where it involves reclamation of derelict or unused land. At the same time there is little to be gained by allowing a development in one part of an urban area simply to see the deterioration of another part.

This comes back to what constitutes "the vitality and viability of town centres." The draft circular offers no guidance on definition.

This is a source of concern to, for example, Manchester and London planners. The London Planning Advisory Committee, which represents the London boroughs, is shortly expected to publish its definitions as part of the move towards a collective retail development planning policy.

The draft circular though has a somewhat dismissive tone on this question, telling the local authorities: "Only in the case of very large developments, or where several major developments are being considered concurrently, are the effects likely to be so substantial as to raise serious questions about the future of nearby town centres."

Executive pension curbs plan

BY ERIC SHORT

RESTRICTIONS are being proposed by the Inland Revenue on the investment powers of controlling directors and other senior executives operating their own pension arrangements.

They include a ban on loans from a scheme to its members or to persons with a contingent interest such as close relatives. The purchase of residential property for use by a director, particularly a holiday home, would not be permitted.

Rules for the investment of the assets of any company pension scheme set up under trust are laid down in the trust deed. These usually permit wide investment powers to trustees. However, for directors' schemes, known as small self-administered schemes, there are investment restrictions set out in a memorandum issued in February 1979.

This set specific restrictions in some investment areas, however, many restrictions were phrased in general terms, with interpretation left to the Revenue. For example, significant investment in works of art and valuables was unacceptable, the rule of thumb for "significant" being 5 per cent of assets.

These general terms resulted in the Revenue being involved in protracted correspondence and it now proposes to formalise the investment requirements for small self-administered schemes in these areas, particularly loans and investment in property and works of art.

The proposals ban investment in residential property and works of art and loans back to the company are restricted to 25 per cent of assets in the first two years of the scheme's formation.

In a minority of cases the Revenue has found great difficulty in obtaining information on assets held by schemes, so it is proposing automatic notification of investment in particular fields. Responsibility for compliance with the rules will be placed on pensioneer trustees.

All such schemes must have an outside trustee, known as the pensioneer trustee, and the status of the pensioneer trustee has to be approved by the Revenue. Such a trustee is invariably either the consultant to the scheme or the life company involved.

Until now their responsibility has been to ensure that the scheme is not wound up and the assets distributed without Revenue approval. Now they will fulfil the role of Revenue watchdog, a move the Association of Pensioneer Trustees feels needs careful consideration.

The association welcomes codification of existing practice but is concerned some of the proposed rules will unreasonably restrict a trustee's general powers of investment.

Textile scheme to be voluntary

BY ERIC SHORT

ALL FULL-TIME employees of Coats Viyella, the textile group, will be eligible to join the group pension scheme which comes into operation on January 1.

However, in line with the new pensions environment brought about by the 1986 Social Security Act, membership of the scheme will be voluntary.

Coats Viyella was formed from the merger of several textile companies under the leadership of Mr David Alliance, deputy chairman and chief executive. The new group pension scheme will represent the merger, within one scheme, of three existing schemes and will bring in employees whose previous company had no scheme.

Employees in the previous schemes will have their accrued benefits maintained but new employees will not receive any credit for past service.

Employees will contribute 6 per cent of pensionable earnings with the company meeting the balance of the costs, which in a start-up situation are invariably high.

Although the scheme starts three months before the provisions of the 1986 act come into operation, the scheme has tailored entry conditions to conform to its provisions.

Membership will be voluntary, therefore, with employees applying to join the scheme, although the act allows schemes to make membership automatic unless an employee exercises the right to opt out.

The act does not give employees the right to rejoin the scheme once they have opted out but Coats Viyella will initially give employees 12 months to decide.

Company pension schemes will be in competition with personal pensions next year and in certain respects this scheme has some disadvantages. The high level of employee contributions means that an employee would have some 3 per cent higher take-home pay by not joining the scheme.

Coats Viyella feels that active promotion of the scheme to employees, by means of a video and booklets, will encourage employees to join.

This scheme will be something of a test case in assessing the attitude of employees towards company schemes within the new environment.

Funds raise holdings of foreign equities

BY ERIC SHORT

SELF-ADMINISTERED pension funds in the UK held £31.08bn of overseas equities in their portfolios at the end of last year - 16.3 per cent of the £190.5bn total assets - according to figures in the latest edition of British Business, published by the Trade and Industry Department.

This compares with £6.32bn held in overseas equities at the end of 1981, representing 9.6 per cent of the total of £65.7bn.

Pension funds have been heavy investors in overseas securities in most years following the ending of exchange controls in 1979, with net investment last year amounting to £2.66bn - 27 per cent of total net investment of £9.9bn.

However, this overseas investment drive by UK pension funds has not been made at the expense of investment in home-based equities.

UK equity holdings at the end of last year, amounting to £100.2bn, accounted for 52.6 per cent of the aggregate portfolios, compared with 46.1 per cent or £30.27bn at the end of 1981.

Pension funds have been running down their proportion of assets held in gilts and other UK public securities, from 20.1 per cent to 15.5 per cent over the period, and in direct property holdings, halved from 14.9 per cent to 7.3 per cent. However, funds have been increasing the proportion of index-linked gilts.

The funds have also been showing growing interest in overseas government securities, where higher yields can be obtained in many cases. These have risen from 0.2 per cent to 0.6 per cent of assets - £1.16bn in value.

Barclays to lease Royal Mint space

By Paul Cheeseright, Property Correspondent

BARCLAYS BANK is to lease 210,000 sq ft of office space at the redeveloped Royal Mint site near the Tower of London for its foreign exchange and treasury operations, a further development in the spread eastwards of the City.

Mr Martin Landau, chairman of City Merchant Developers, the property company constructing 500,000 sq ft of offices in two new blocks and two rehabilitated buildings at the Royal Mint, said the leasing arrangement was in the hands of solicitors.

Barclays is the first tenant at the Royal Mint and a second should be announced shortly. The Financial Times recently considered taking space there.

That Barclays is paying rent of £38 a sq ft and will not take up occupation until autumn 1989 indicates the pressure of space in the City of London. This district has not hitherto been considered a leading location for financial groups.

The Barclays move is part of a wider process among clearing banks to reorganise their property holdings in the City. Midland Bank is known to seeking a site to consolidate its head office operations, and Lloyds is planning to move some staff to Bristol.

Venture capital group sets £25m target for pool

By Charles Batchelor

GROSVENOR Venture Managers, a venture capital group based in Slough, Berkshire, has finalised plans to create the Third Grosvenor Fund, a £25m pool of development capital.

The success of other venture capital groups in attracting funds has prompted Grosvenor to increase the target size of its third fund from the £20m announced last May, and said it already had commitments of £11.5m from institutions.

Earlier this week Schroder Ventures received £125m worth of applications for its latest fund which it scaled down to £80m.

The fund takes the form of a UK limited partnership, designed primarily for pension funds and insurance companies.

Development capital is invested in fairly well established companies and is less risky than venture capital invested at an earlier stage.

Philip Stephens reports on the omens contained in the latest string of official indicators

Wages growth dampens economic euphoria

THE GOVERNMENT could hardly have hoped for better news on the economy than that delivered by last week's string of official indicators.

Evidence of buoyant output, rising productivity and investment, a falling jobless total and subdued inflation would have been welcome enough, but alongside that came public borrowing figures suggesting that Mr Nigel Lawson, the Chancellor, will have ample scope to live up to his tax-cutting ambitions in next spring's Budget.

Short-term indicators, as the Treasury would be the first to admit, are notoriously unreliable. Last summer, for example, it appeared that the economy had slowed significantly. In retrospect, it is now clear that the pause in growth had ended well before anyone recognised it.

Looking at the latest set of statistics, however, it is hard to draw anything but the conclusion that Britain's economy is growing faster than virtually all of its major rivals.

Output seems set to rise by about 4 per cent this year rather than by the 3 per cent forecast in the last Budget. Manufacturing production is expanding at an underlying rate of around 5 per cent.

The jobs position is still fogged by special measures and tougher screening of benefit claimants but the sharp fall in unemployment seems, in part at least, to reflect a genuine improvement in the labour market.

The shortfall on the current account of the balance of payments this year also looks likely to turn out below the last Treasury forecast of £2.5bn. The trade deficit in manufactured goods is widening progressively, a trend expected to be confirmed with Thursday's publication of statistics for August. However, for the moment at least, buoyant invisible earnings are plugging much of the gap.

After a dismal performance last year investment is rising

The official hope is that last year's devaluation of the pound and the Government's subsequent commitment to hold the currency relatively steady have finally allowed Britain to break into a virtuous economic circle.

If the economy could stay within the circle, rising output should continue to generate higher productivity, in turn preserving industry's competitiveness and encouraging it both to invest in more plant and machinery and to take on more workers.

There have certainly been elements of that over the past year. Manufacturing companies have responded to a more competitive exchange rate and the promise of stability by boosting output rather than by simply raising profit margins.

After a dismal performance last year, investment spending is rising relatively fast. Productivity has been increasing at an annual rate of between 6 per cent and 7 per cent.

It is easy to overdo the euphoria. The increase in manufacturing output has only now restored the level to that inherited by the present Government in 1979. Capital spending may be accelerating but industry is still investing considerably less than it did eight years ago.

Of greater concern to Mr Lawson, however, is the performance of what he has termed the Achilles heel of the economy - wages.

It is there that the omens are least encouraging. Last week's figures showed earnings growth in manufacturing accelerating to an annual 8¼ per cent.

The impact on unit costs is being masked, for the moment, by the pace of productivity gains.

The problem is that the present pace of productivity growth is in part a function of the recent surge in output. As the economy slows so also will productivity growth.

Without a sizeable downward shift in pay settlements, industry would then find itself in the all-too-familiar position of seeing its competitiveness eroded by a worsening cost performance. The choice for the Government would be to allow a further sterling depreciation - at the expense of its anti-inflation strategy - or risk a progressive weakening in output by refusing to accommodate "excessive" pay awards.

If that looks likely to be the dilemma of 1988, the current good news on the economy also presents the Chancellor with some more immediate policy problems.

Unemployment has fallen sharply but still stands near 3m

Many of his colleagues in the Cabinet have returned from June's election campaign apparently convinced of the virtues of public largesse rather than austerity. A fast-growing economy is seen by them as providing the cash, as last year, for both extra spending and tax cuts.

The Treasury conceded as much when it was forced to abandon its previous goal of holding public spending constant in real terms in favour of a much more gradual reduction in its share of national income. No-one in Whitehall believes that the Government will be able to hold its cash target for 1988-89 in the current round of spending negotiations.

Last week's figures for public borrowing suggest that both sizable spending increases and lower taxes may be possible. The problem is that they would give a further stimulus to the economy when its growth rate is already above the long-run trend.

The evidence of the past few weeks is that City fears, that the economy is in imminent danger of "overheating" or that the pace of credit expansion reflects an inflationary explosion, have been much exaggerated.

Unemployment has fallen sharply but it still stands at nearly 3m, while rapid growth in credit does not yet at least appear to be feeding through into prices.

Given the fickle nature of financial markets, however, the Chancellor may not be able to take chances with fiscal policy.

The advice he will be receiving from the Treasury is that virtually all of the extra revenues generated by the present bouyancy of the economy should be "banked" by cutting the target for public borrowing even further.

To what extent that is politically feasible is far less certain.

Lawyers 'must relax rules or lose out'

BY HAZEL DUFFY

THE LEGAL profession in Britain is in danger of losing out to competition from overseas unless it relaxes its rules and restrictions, Sir Gordon Borrie, Director General of Fair Trading, warned at the weekend.

He recommended in an Office of Fair Trading report last summer that solicitors should change their rules to allow them to form partnerships with other professionals and to create legal companies.

The change would require not only an amendment to the Solicitors Acts but also agreement of the Law Society, which has so far been split on the issue of multi-disciplinary partnerships.

"The danger is that by standing pat on the present form of legal practice, the legal profession is in danger of losing work to others, of providing a diminishing service to the public at a time when there is an increasing public need for legal services and, where international competition has a part to play, losing out to overseas competitors," Sir Gordon told a conference organised by the David Andrews partnership.

He thought restrictions on competition in the professions had gone beyond what was justifiable in the public interest.

Rover 'receives approaches' for Scammell plant

BY KENNETH GOODING, MOTOR INDUSTRY CORRESPONDENT

THE STATE-OWNED Rover group has received "a number of approaches" about the Scammell heavy truck plant at Watford, Hertfordshire, which is due to close with the loss of all 800 jobs.

The factory was excluded from the deal when Rover merged its Leyland Trucks operations with those of Daf Trucks of the Netherlands in April.

However, some of the factory's operations - the production of trucks up to 50 tonnes gross weight - and the Scammell name are being transferred to the enlarged Daf company in which Rover has a 40 per cent shareholding.

Among those potentially interested in the Watford plant is Mr Vic Wilkes, Scammell managing director, who hopes to put together a management-led consortium to salvage some of the operations.

Mr David Brown, who has a group of family-owned companies in the north-east including the Artix dump truck business, has also made tentative approaches to Rover about Scammell.

However, Mr Brown is involved in negotations with General Motors about the acquisition of the US group's truck factory at Dunstable, Bedfordshire, which produces Bedford military vehicles and some civilian versions for export outside Europe.

It seems likely that Mr Brown considers the Scammell factory only as an alternative should the deal with GM fail at the final hurdle.

Acknowledging that there had been considerable interest in the Scammell factory, Rover said there had been some discussions "but nothing you could describe as negotiations."

It pointed out there was no urgency because the factory was not due to close for another year. In view of the change in ownership of the Scammell name, the business has been re-named Special Trucks.

The Watford factory has the capability to build trucks up to 300 tonnes gross weight and, although demand for such vehicles is limited, the value of each is high.

Mr Wilkes believes it might be possible to set up a small independent company to exploit Scammell's special heavy vehicle business. His prime objective would be to keep some production at the existing Watford site where there has been substantial investment.

If there were demand for about 200 trucks a year it might save about 100 of the jobs due to go.

Rover said it would look sympathetically at any proposals by the Watford management. Daf has also agreed to listen to proposals.

Extra exams 'to increase breadth of education'

BY LYNTON McLAIN

ADVANCED supplementary examinations in sixth forms, to be introduced this month, are expected to help increase the breadth of education for young people with special relevance for commerce and industry, according to The Engineering Council.

The council, which promotes engineering, issued a statement this morning jointly with leading organistions representing higher education in universities, polytechnics and colleges, in support of the new exams.

AS-levels will offer sixth formers the chance to broaden their fields of study and can be taken in a range of subjects, to complement or contrast their main choices. One AS-level is equivalent to half an A-level.

Mr Kenneth Millar, council director general, said: "The AS-levels provide a student studying, say, maths and science or technology at A-level with the ideal opportunity of taking English, languages and humanities at AS-level, thus giving the student a broader balanced education.

"The introduction of AS-levels enables students to take a wider range of subjects to become the type of engineer industry wants. Employers today are seeking staff who are numerate and literate and more able to adapt to change as new technologies and new methods are being introduced."

The statement in support of AS-levels is issued with the Committee of Vice-Chancellors and Principals, the Committee of Directors of Polytechnics, the Standing Conference on University Entrance, The Council for National Academic Awards and the Standing Conference of Principals and Directors of Colleges and Institutes of Higher Education.

The Engineering Council sees the collaboration in backing the exam as a big step towards achieving broader sixth form education. Higher education institutions will accept AS-levels in whole or in part towards entry requirements to most courses.

Teachers urge curbs on parents' power to opt out

BY DAVID BRINDLE

SCHOOLS SHOULD not be able to opt out of local authority control unless more than two-thirds of all parents of children at the school vote in favour, the biggest teachers' trade union has told the Government.

The National Union of Teachers says the Government's plans for grant-maintained schools would allow a minority group of dissatisfied parents and governors to make an irreversible and "fundamentally undemocratic" decision to opt out.

While emphasising its total opposition to the principle of opting out, the NUT says in its formal response to the plans that if there is to be such provision, then "at least half and preferably two thirds" of all parents - not just those voting - should be in favour.

Alternatively, the union suggests, there should be a second ballot between six and 12 months after the first one. Only if the second ballot confirmed a decision to opt out could application to do so be made.

The NUT's response is generally hostile to the Government's plans, branding them "a covert means of privatising the education service, reintroducing selective education and concentrating resources on a privileged elite."

The NAS/UWT, the other TUC-affiliated teachers' union, says in its response to the Government's scheme for delegating financial management to schools that it believes the scheme cannot succeed without better planning and increased funding for education.

Spanish horses banned

BY DAVID BLACKWELL

BRITAIN has banned the import of horses from Spain following an outbreak of African horse sickness south-east of Madrid.

The Ministry of Agriculture warns that the fatal disease, carried in a virus spread by insect bites, could have serious consequences for Britain's horses if it reached the country.

The ban covers not only horses, donkeys and mules originating from Spain but also any UK horses which have been sent to Spain for show-jumping and racing.

The Spanish authorities are introducing strong control measures to halt the spread of the disease but a number of horses have already died.

The last outbreak of the disease in Spain was in 1966.

CONSTRUCTION CONTRACTS

Longley refurbishes schools

A seven-storey City office building, a boarding school and a London casino are among £24m worth of contracts won by JAMES LONGLEY & CO. For Clayform Properties work has begun on a 44,000 sq.ft. air-conditioned office development at 75-79 Mansell Street, London E1, where the features of the £4m H-shaped scheme include aluminium cladding and blue glazing. At Ascot, Berkshire, a school catering for 750 day and boarding pupils, with a theatre, swimming pool, sports hall and specialist classrooms, is to be built for the Society of Licensed Victuallers. This will replace the original private school, known as Heatherdown, which was built by Longley in 1908. In Cromwell Road, London SW7, a £2.7m redevelopment project comprising a casino, reception suites and self-contained residential accommodation is under construction for Rutland Wood Properties. A £1.5m design and build scheme at Crawley is under ways, providing 45,000 sq.ft. of offices for Sherwood Medical.

Work for a range of colleges and schools includes a £2.5m contract to extend and refurbish Crawley College of Technology; extension of the Institute of Marketing's training school at Cookham, Berkshire (£500,000); and the redesign and conversion of staff accommodation at Christ's Hospital School, Horsham. In addition, Longley is to design and build a music block for Handcross Park School, construct a three-storey study/bedroom and staff houses complex for Ardingly College (£927,000); and undertake a variety of refurbishment on eight schools in the Surrey County Council area. Other Sussex projects, totalling £350,000, include alterations to the Dolphin & Anchor Hotel at Chichester for Trusthouse Forte, refurbishment of a Grade II listed farmhouse at West Grinstead, and an extension to a private house

Lilley wins work worth £12m

LILLEY CONSTRUCTION, Glasgow, has won contracts totalling £12m. A 1.2km sewer is to be built at Thurrock for the Borough Council using an Iseki Poly Tech Crunching Mole Machine (£2.7m). Two blastproof control buildings are to be constructedfor Esso petroleum at Fawley (£3.5m). The company has also secured a contract for the construction of an access road as part of BP's Wytch Farm oilfield at poole, Dorset. Other contracts in this area include site preparation for Amoco (UK) Exploration Co., at Furzedown; refurbishment of Alexandra House, Portsmouth for Hampshire County Council; a test track at Aldershot for the Property Services Agency, and a rifle range and drill hall for the South East Territorial Army Volunteer Reserve Association in Sussex.

In Scotland, the company has secured contracts for Wemyss Bay Pier for Caledonian Macbrayne; construction of two buildings at Lochgoil for the Property Services Agency; a concrete tank for Roche Pharmaceutical Products at Dalry; piling at Dundas Street, Edinburgh, for Grosvenor Developments; and further work at Grangemouth for BP. Lilley Construction (International) has been awarded a £2.7m sewerage and sewage disposal contract by Dubai Municipality. The contract, which began earlier this month, is due to be completed by March 1989.

Boot wins hospital extension

A £35.75m contract for the phase 4 extension at Leicester Royal Infirmary has been awarded to HENRY BOOT. Work starts next month for completion in three years. The eight-storey development in two wings will provide 360 general acute beds, 90 beds for the elderly, nine special investigation beds, an X-ray department, pharmacy department, additional out-patient clinics, medical illustration department, mortuary, and other supporting departments. It should be available to patients in 1991.

213 flats for students

BARRY D.TRENTHAM has been awarded a contract worth £1.4m by Peaston & Co., for Edinburgh University student accommodation at Sciennes, Edinburgh. The project involves construction of a five-storey block providing 213 student flats, general amenity space and car parking. Work will be completed early in 1989.

Jarvis helps unemployed

J.JARVIS & SONS has won orders totalling £10m. The largest is a £2.7m office refurbishment project for the Co-operative Insurance Society in central London. At Thamesmead a £919,000 primary school extension is under way for the ILEA. In Consett, Co.Durham, the Hownsgill plate mill is being converted into six factory units for Derwentside District Council. Jarvis's community programme division, claimed to be the first agency to be set up by a UK building contractor to help the long-term unemployed, has started on a £500,000 inner city project to build a new resources centre for the Seventh-Day Adventists Church in Balham. The work is being funded by the Church, the Manpower Services Commission and Wandsworth Borough Council. The company says this brings the total community programme work to over £5m.

Wiltshier busy in north east

JOHN E.WILTSHIER GROUP has contracts worth more than £8m for work in the north east. Construction has started on a 28-week £1.8m polymer plant development for Bonar Cole Polymers at Newton Aycliffe. Work has started on £1.8m of extensions and alterations to Mono Containers' factory in Durham. Wm. Low & Co. is having its Gateshead distribution warehouse extended in a similar sized contract. Wiltshier is carrying out a further $1.2m work at Aycliffe Sports & Leisure Centre. Refurbishment will include a mechanical and electrical refit, and new swimming pool equipment. The Cooperative Wholesale Society has awarded a £650,000 contract to refurbish its regional distribution centre at Birtley. Wiltshier is acting as management contractor for Middlesbrough Borough Council on the £564,000 refurbishment of the Sadiq Building in Middlesbrough. The four-storey building is being converted into multi-community group accommodation. The company is building a £400,000 public house for Samuel Smiths at Darlington.

Industrial and office package

A package totalling more than £4.5m for offices near Crawley and industrial units in Wandsworth has been won by DIX BELGRAVIA. Work has started on the 20,500 sq.ft. office building at Haselwick Avenue, Three Bridges. Construction is of piled foundations, with reinforced concrete frame, and cladding of brick, curtain walling and glass. The £4m project is due for completion in late 1988. At Kimber Road, Wandsworth, a former Army publications depot is being converted to 40,000 sq.ft. of industrial units, to be known as The Kimber Centre.

£1m orders for Fondedile

FONDEDILE FOUNDATIONS has won contracts worth over £1m. Orders include drilling services for dewatering at the A55 Conway crossing (£250,000); piling at La Colette for the government of the States of Jersey (£251,000); piling and underpinning the river wall at Malvern House on the Thames (£250,000).

Joint venture urban renewal

Artist's impression of the refurbished Ladywell flats.

A £5m joint venture between WIMPEY HOMES urban renewal unit and the City of Salford involves the conversion of Ladywell flats in Eccles into private flats and new houses for sale, and local authority flats for rent. It involves refurbishment of 144 flats, and construction of 18 houses to provide low-cost starter homes. There will be 141 flats for rent, and a community centre. The former council-owned properties in Eccles New Road will be transformed to provide one, two and three-bedroom homes, to be completed in two years.

THE MONDAY PAGE

Civilisation and a race against time

JOHN LLOYD

RACE will dog the Conservative Government in the UK throughout its third term. The black and brown communities are too numerous, too settled and have too many bones of contention with their white neighbours and with each other to allow optimism, or relaxation, on the race relations front.

If Britain does not wish to resign itself to the future which Enoch Powell sketched out nearly two decades ago—"the River Tiber foaming with much blood," you remember—we must take steps to avoid it. Taking steps, though, is likely to mean the adoption of the kind of policies which, if not anathema to the Government, are at least not up its street. For race relations in a liberal society does not lend itself to individualism and market-based solutions. It can be tackled only by dirigiste methods.

The liberal ethos holds that people of different races and cultures should be able to live together as fellow citizens, even though it acknowledges limits to the numbers of different communities who can be accommodated in the same country as the "host."

Many people share that assumption and live by it. Many more, however, do not.

The towns of Essex are full of men and women who will tell you, whether you want to *know it or not, that they left* their communities in east or south London to "get away from the blacks."

The parents of Dewsbury make the point again. I would not label as "racist" those among them who do not want their children to attend Headfield Church of England School because 85 per cent of the children are of Asian origin, largely because the tag of racism confuses more than it describes. On that usage, it also describes Moslem parents who want their own schools and Afro-Caribbean members of the Labour Party who want black *sections*. It may be literally correct, but it is better to preserve its use as a perjorative to describe those who believe certain races to be endemically inferior to others, usually their own.

Yet on the Dewsbury refusniks' own admission, the reason for their campaign to transfer their children to Overthorpe Church of England School *is* that they hold 85 per cent to be cultural "swamping." Harry Madden, one of the parents, is quoted as saying: "If it were 50:50, fair enough, I'd be happy. But not 85."

The success of Jean Marie Le Penn's National Front in France springs from a more organised and more frankly expressed version of the same phenomenon. Nearly two decades on from Mr Powell, Mr Le Penn has a familiar remedy: deportation.

In the words of his new and unlooked-for apologist, Sir *Alfred Sherman — whose* Jewish blood remains unboiled by Mr Le Penn's characterisation of the holocaust as a "detail in the history of the Second World War"—the French Arabs "do not fit into a Christian country. *They cannot be loyal* to other countries, and this has nothing to do with racism." Sir Alfred, a former policy director of the Centre for Policy Studies, has thus arguably gone even further than other right-wing commentators, who increasingly sharply question the desirability, or even possibility, of large immigrant communities successfully integrating into British culture.

It is easy enough to talk up a crisis, or just a moral lather, from nothing on this issue. British society is still relatively liberal (though the Asians of east London might be forgiven for missing that fact: a report last week from the Commission for Racial Equality showed that one in four had suffered racial attack or harassment). But it does not seem, more liberal than France did before the *Le* Penn era, with its apparently easy acceptance of Francophone Africans, Arabs and Caribbeans. More importantly, it will not be kept so by laissez faire.

I assume that deportation is not an *option*. The *injustice* of it needs only a few seconds' thought to be evident.

So we are left with the one-step-forward, two-steps-back process of trying to lay down ground rules for a multi-racial society. The Government has not been wholly lacking in initiatives. It has tried, for example, to employ more people from the ethnic minorities. But it should take much higher ground, both in setting an example and in cajoling the private sector. Ominously, the one minister to show real public enthusi*asm for such a task* — *Peter* Bottomley—was shunted out of the Department *of* Employment into Transport two years ago, after a very brief stay.

It is open to the Government, for example, to adopt *one of* the better *ideas of the* former Greater London Council and seek to ensure that its contractors work towards a more racially balanced workforce, if they wish to continue receiving government business. The system has worked so well in the US that efforts by the Administration to dislodge it ran into opposition from large corporations concerned that it continue for the sake of industrial relations and their public image.

But all of this needs an assertion that multi-racialism is part of the culture. That will meet with every kind of backlash — most of all from whites, but also from ethnic groups who demand more separateness than even a liberal democracy can tolerate or who really do merit Sir Alfred's stricture that they cannot be loyal.

The detractors *of* multiracialism oppose it with a concept of Anglo-Saxon patriotsim. They will have *success with that* line unless multi-racialism's supporters redefine patriotism, that most powerful of emotions, to include a polyglot culture. In doing so, they should enlist the full-hearted loyalty of ethnic minorities — and they would be assisted in this if more of them were in both the country's elites and its arms of authority, like the police.

What choice is there? To let society sort itself out "freely"? That is, to see more and more groups "sticking to our own;" to see the areas of meeting and mingling shrink; to see more young black animosity and criminality, more acts of harassment sparking more riots and these, in turn, making the emergence of a British Le Penn more likely?

None of that is overblown *to the residents, black* and white, of some of the inner cities which the Prime Minister has visited. Its avoidance will require the mobilising of a response which does not come naturally either from the UK Government or *from its people.*

INTERVIEW

Quality without mercy

Raymond Snoddy meets Michael Checkland, BBC director-general

THE LATE Sir Huw *Wheldon*, when he was managing director of BBC Television, warned the promising young accountant that if he was ever going to get anywhere in the Corporation he would have to make some programmes.

"I didn't think I had time for that. There were a lot of things I wanted to do on the management and *financial* side," recounts Michael Checkland, director general of the BBC.

He may never had made a programme, but after seven months in the top job in British broadcasting Checkland is pro*ducing one of* the most dramatic periods of change in the BBC's history.

With a speed and decisiveness that has verged on the brutal, new management structures have been put in place; many close associates of former director Alasdair Milne (fired earlier this year) have retired, voluntarily or under pressure; young outsiders have been recruited for top jobs in an organisation with a strong tradition of internal promotion.

"Structural change is the first thing you have to accomplish. If you are going to be the chief executive of a large organisa*tion you have to have a struc*ture where everyone knows what the various parts are. That I've done very quickly. I have made it clear we are *looking* not only inside the BBC but outside the BBC for the best people," says Checkland.

Plucked by than chairman Stuart Young *from* the relative obscurity of director of resources at BBC Television to be deputy director general in 1985, Checkland was named director general in February—having eased his way with quiet determination between two much better known men, David Dimbleby, the television presenter and Jeremy Isaacs, chief executive of Channel 4.

● PERSONAL FILE

1936 Born in Birmingham
1959 Internal auditor, Parkinson Cowan
1962 Accountant, Thorn Electronics
1964 Joined the BBC as senior assistant in the cost department and became senior cost accountant in May of that year
1971 Chief accountant, BBC Television
1982 Director of resources, television
1985 Deputy director general
1987 Appointed director general in February

Immediately he abolished the three managing directorships—radio, television and external services—and replaced them *with five new programme management areas*. John Birt, the new deputy director general brought in from London Weekend Television, the independent television company, heads a combined news and current affairs directorate. The other four are network television under Bill Cotton (who will be replaced by Michael Grade *when he retires next year*), network radio under David Hatch, regional broadcasting under Geraint Stanley Jones and external broadcasting under John Tusa.

"I believed that the jobs of managing directors were far too big. I didn't think a managing director television—responsible for all of news and current affairs all of network television, including education and entertainment and local programming —was a practical job for any one person to do," says Checkland.

He noted with pleasure a small pastoral example of the *new integrated approach* when he visited the Royal Agricultural Society's annual show at Stoneleigh in July. He found local radio, regional television and even personnel recruitment grouped together in one tent under the banner of BBC Midlands.

It will take a much bigger canopy to encompass one of Mr Checkland's most radical changes, the decision to merge the often warring fiefdoms of news and current affairs in a directorate with 70 journalists and an £80m annual budget.

Apart from demanding more rigorous journalism — some in*siders claim it goes as far as* requiring scripts to be approved in advance of filming — Birt has promoted young BBC executives such as Tony Hall, the editor of the Nine O'Clock News, to become editor of television news and current affairs. He has also brought in new people such as a former LWT colleague Samir Shah as Hall's deputy, and *Ian* Hargreaves, features editor of the Financial Times, who has spent his working life in newspapers, as managing editor in charge of virtually all the BBC's journalists.

Apointments such as these—and that of 33-year-old Howell James, special adviser to Department *of* Trade and Industry Secretary Lord Young, as director of corporate affairs, the youngest ever member of the BBC board of management — raise the question of whether Michael Checkland is creating serious problems of internal morale.

"If we have chosen the wrong people it will obviously create problems of morale. The BBC will get behind the new editors and the new people if they prove to be good and competent."

Creating a new structure was just the first step in redefining the role of the BBC, a public service broadcaster funded by compulsory licence fee levied on all television viewers, in an age of growing competition and deregulation.

"This expansion of the marketplace gives us the opportunity to reassert the BBC's role as a national broadcaster," says the Birmingham grammar school boy who studied modern history at Oxford University.

Checkland believes that a secure financial base for the BBC will be of vital importance in protecting programme standards, when ITV could come under growing commercial pressures from satellite and cable TV operators with little *if any obligation to offer public* service broadcasting.

Previous directors-general have tended to see themselves more as editors-in-chief than chief executives. Isn't there a danger that he might regard himself as chief executive rather than editor-in-chief?

"*There is no such danger* at all," Checkland replies, although he can think of only one major editorial decision he has taken so far—deciding to show Dennis Potter's play Brimstone and Treacle as part of a Potter retrospective season, a play banned by his predecessor because it portrays the rape of a mentally handicapped girl.

Checkland says he expects no more than half a dozen major editorial decisions to be referred up to him in a year, and it appears that 42-year-old Birt is very much in day-to-day editorial control of the Corporation.

Views of Checkland and his changes differ widely. Some believe the BBC is now being *managed* in a way that it has never been before. Others mutter about a Stalinist centralising approach which will sap inspiration.

To Sir Ian Trethowan, chairman of Thames Television and a former director general of the BBC, it is too early to judge the final outcome. "They are very radical changes and only time will show whether they work or not."

Another former senior BBC executive is much more critical: "There is a belief that structures can solve all the problems. *It's the Central Committee* approach. It's crazy." He fears that creativity and flexibility will suffer.

By contrast, an existing BBC executive describes Checkland as "practical and down to earth" — someone who has reduced the temperature and the aggravation *factor* in the BBC's relations with the outside world.

Michael Checkland came to the BBC entirely by accident, when he was dissatisfied with his accountancy job at Thorn Electronics.

He immediately embraced what be describes as the sense of purpose and commitment he found there.

Now the former cost accountant, whose special topic at university was Oliver Cromwell, waxes lyrical on the subject of the powerful influence of radio and television.

For most of his life, his father worked in a retail hardware store in Broad Street, Birmingham. Rather like Mrs Thatcher, who came from a similar background, the three Checkland children were expected to work hard, stand on their own two feet and get on.

His elder brother Donald, now deputy headmaster at King Edward's Aston School Birmingham, says he was more interested in football and music when he was young, although he was bright enough to get to Oxford without being a swot.

At the BBC, Checkland's business-like thinking is well suited to financially stringent times. He wants the Corporation to earn as much as it can from exploiting its infrastructure commercially: there are plans for new magazines tied into BBC programmes such as The Clothes Show; and transmitter "downtime" during the night could be used to distribute films to video *recorder* owners and specialist videos to groups such as doctors.

But again and again, the man who has never made a programme returns to quality as the only justification for the continued existence of his £1bn a year organisation.

Fraud and the burden of proof

JUSTINIAN

IF LORD Roskill and his *fellow* members of the Fraud Trials Committee (with the exception of the dissentient voice of Mr Walter Merricks) are still looking for support for their recommendation, made in their report of January 1986, to substitute trial by judge and two laymen for *jury trial in complex fraud* cases, they could find no more powerful support than the abortive trial in Hong Kong in the Carrian investment company case.

After 281 days of courtroom hearings over 14 months, involving 104 witnesses, whose evidence occupied 25,000 pages of verbatim transcript, at a cost that, whatever the final bill to *all the parties, will be not just* immoderate but exorbitant, Mr Justice Barker withdrew the case against all six defendants at the end of the prosecution's case. The jury was thus spared the herculean task of assimilating the vast quantity of evidence to that point (and yet to come had the trial continued to its expected end), evaluating it and bringing in just verdicts.

The majority recommendation of Lord Roskill and his colleagues was rejected by the Government and found no place in the Criminal Justice Act 1987 which, truncated by the premature *dissolution of parliament*, at least established the Serious Fraud Office and made other changes in the mechanics of prosecuting fraud cases.

The Roskill Commission became convinced that a different form of tribunal was necessary for complex cases "if fraudsters are to be brought to book." The committee concentrated its argument on the complexities *of modern fraud and the difficulties* for a jury in unravelling the often labyrinthine transactions designed to conceal it.

The Carrian case is a curiosity because of the manner in which it was abruptly terminated. Counsel for the defence in submissions at the end of the Crown's case, relied heavily on the fact that the jury's task had become well nigh impossible and that it would not be able to render the accused the fair trial to which they were entitled. The judge appeared to reject this as a ground for stopping the trial. Instead, he reasoned that the six accused had no case to *answer*, which calls *for* some exposition.

Two of the accused were the partner and manager of Price Waterhouse's Hong Kong branch, Carrian's auditors. The charge against both was of conspiring with Carrian executives to misrepresent the company's financial position. The judge said that the evidence disclosed "false entries in ledgers, false *deposit slips, false paying-in* slips and false minutes," but these falsities were evidence of a conspiracy by the falsifiers in the Carrian group of companies against the auditors, and not a conspiracy by the auditors. Hence their discharge.

Charges against two brothers who had conducted business with Carrian were dismissed on the basis that although the two might have been members of a conspiracy, it was not the one on which they were being tried. It followed that the indictment charged two different conspiracies and was "bad for duplicity." That left no basis *for proceedings to continue* against George Tan, Carrian's former chairman, and Bentley Ho, a former director.

For those of us who have only a nodding acquaintance with this complex case, it is impossible to judge the soundness of the decision by Mr Justice Barker. The *immediate* query raised is: how is it that grounds of "wrong conspiracy" and "bad for duplicity" did not arise for decision at the outset of the trial?

Before the trial began in February 1986 there had been committal proceedings lasting more than six months, at the end of which the court of committal must have held that there was a *prima facie* case for all six accused to answer. It seems odd that a finding at the end of the committal proceedings to the effect that the *indictment* was good in law could be held to be bad in law at the end of the prosecution's *case at trial.*

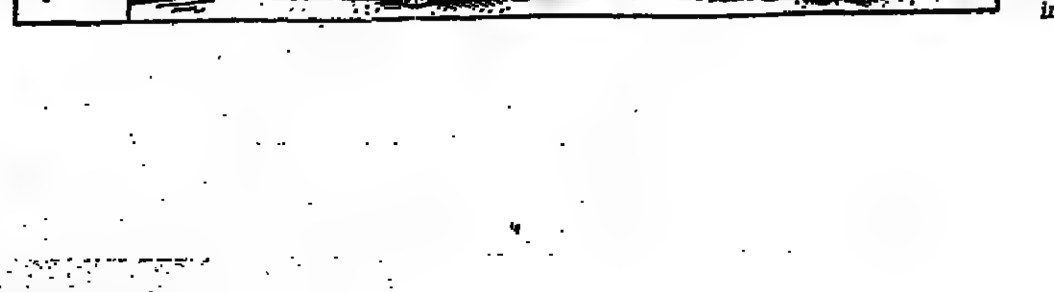
Whether or not it was correct of the judge to throw out the prosecution's case, there is still the worry about the length of the proceedings.

One reason why some fraud trials take so long is that it is necessary to explain matters *over and over again to the 12* jurors, who have different levels of comprehension, to ensure that they have every chance of understanding what it is that they are being asked to decide. A lengthy trial is, moreover, a major disruption of their lives. Is it fair, and ultimately in the interests of justice, to impose such burdens upon the ordinary citizen? If a judge finds the burden well nigh intolerable, how much more so the jurors?

The question whether complex fraud trials should continue to be tried by juries should now be resuscitated.

One member of the Roskill Committee, Lord Benson, was the main expert witness for the Crown in the Carrian case on accountancy. He spent four months in Hong Kong advising and giving expert testimony. His professional expertise and high reputation, with his direct and detailed knowledge of the Carrian case, should be a powerful persuader to the Government to think again about the Roskill recommendation, and for parliament to endorse the recommendation in the forthcoming consideration of the Criminal Justice Bill.

THE RAT race
Smith & Heathwill



A common thread in a professional maze

Steven Butler explains the synergy of Abaco's disparate grouping

ABACO INVESTMENTS, the London-based financial services group, evidently could not be convinced to go on holiday this summer. Instead it managed a breath-taking 14 acquisitions during July and August.

These, indeed, are only the latest bits and pieces that have been tacked on to the shell company, Greencoat Properties, which in June 1983 came under the direction of two former merchant bankers, Peter Goldie and Cameron Brown.

Abaco has managed to keep both profits and earnings per share on a steady upward curve during its shopping spree for residential and commercial estate agents, insurance and mortgage brokers, loss adjusters, and other members of the licensed professional financial services family. Last Thursday, it announced a near five-fold increase in profits to £6.55m, while earnings per share doubled to 2.31p.

Even so, with the structure of the group only now fully taking shape, the real test and the potential benefits of the Abaco strategy appear yet to come.

The rationale for Abaco's growth rests on two fundamental ideas - first, that professional firms can benefit, and professionals be kept very happy, by being taken over by sophisticated corporate managers and built in to a larger chain. Abaco makes its contribution by providing professional management services while the acquired firm retains a good deal of independence and carries on with its professional work more or less as in the past.

The short term of the business deal is that Abaco makes partners in the acquired firms wealthy men overnight while it negotiates a price that gives an immediate boost to earnings, made possible because Abaco's shares are highly rated and because small private firms come relatively cheap.

The second rationale is that business volume can blossom by cross-marketing of services. But the "synergy" aspect of the group structure applies only to parts of the business. There is no obvious logic to having an international loss adjusting company under the same roof as a local estate agent, except that both can potentially produce profits.

The potential for synergy is most apparent in the property side of the business, but this has to some extent been embryonic to date. Next year the juice will be turned on as Abaco begins to market itself as a group.

John Charcol, the mortgage broker, was one of Abaco's earlier acquisitions and is in this respect strategic. Abaco has now assembled a chain of some 120 local estate agencies, and is gradually training and putting a John Charcol consultant into each office.

The jewel was set into the crown when Abaco's reputation had grown to the point that Hamptons, the prestige London estate agent, approached Abaco last year and asked if it was interested in buying. "Hamptons," attached in one way or another to the name of a local agency, is now to become the trade name for the entire chain of estate agents.

Recognition

Cameron Brown, managing director, says the aim is to create trade-name recognition among the public and to foster corporate unity, without damaging local identity. The group's designers are now wrestling with ways of using the name Hamptons in order to achieve this.

Abaco decided not to use its own name for trading in order to avoid confusion in the minds of the investment community. Property-related services fill up only part of the Abaco stable, and Abaco does not want to be identified solely as a company tied to the fortunes of property because this could adversely affect its share price if the property market softens.

The formula also lightens the impact of being part of a big corporation. "The great heavy corporate culture will not be imposed (on acquired companies)," says Brown.

The goal is to maintain a club-like atmosphere across the group of like-minded professionals working together. This could be crucial given the kind of acquisitions Abaco has made. It has brought on, at latest count, about 60 self-made millionaires, men who do not have to work if they do not like the regime.

Expansion in the residential property services is likely to slow down as the field of estate agent chains is quickly becoming crowded. Abbey National, the most recent entry, announced recently that it would create a chain of 1,000 franchised, branded, estate agents.

This increases both the competition and the cost of Abaco's expansion by bidding up the price of established estate agencies. Further acquisitions will be limited to geographic filling in by acquiring smaller agencies where, Brown says, a good price can still be negotiated.

The chains, however, have been dominated by banks, building societies, and insurance companies intent on finding a marketing outlet for their own branded products - mortgages and mortgage-related life insurance policies.

The structure of Hambro Countrywide, which is 60 per cent owned by Hambros, the merchant banking and financial services group, bears the strongest similarity to Abaco's property services, with the strong retention of local agent identity under a broader corporate management structure.

Brown believes - as does Hambro - that there is no significant consumer loyalty to estate agencies, and that the business is kept strong by maintaining an entrepreneurial spirit.

This view is clearly at odds with that of the Abbey National, or the Prudential, which are attempting to provide a uniform branded service. The market may well have room for both strategies to succeed.

Hambro did, however, break ranks with Abaco recently, with the announcement that it would soon be supplying its own branded life insurance products from a new company being established by Guardian Royal Exchange. A branded range of mortgage products could well follow.

This leaves Abaco alone among the major estate agency chains in offering all life insurance and mortgage products from all vendors, and this point will be a key part of its marketing strategy. The position is analagous to the decision by National Westminster Bank last week to sell its unit trust business in order to establish a marketing position as an independent broker of a range of financial services.

Brown says the experience of joining Abaco has for the majority been a happy one. "Most of the firms that have come in have found their lives not substantially changed. If in the past you've taken 10 weeks' holiday, joined the golf club, driven an expensive car and made those kind of results, that is what we are buying," he says.

Cameron Brown: making professionals happy

Most professionals, he says, are glad to be relieved of the task of managing their businesses, which allows them to get on with the professional work for which they are trained and that they generally enjoy. Many, he says, find that Abaco manages the business end better, with strict reporting procedures, cash controls, and reduced overheads, and this can translate into higher income under Abaco's incentive schemes.

The estate agencies, mortgage brokers, banking, and mortgage portfolio administration subsidiaries all have realised and probably much more unrealised potential for cross- marketing of services, and thus offer the best possibilities for organic growth.

The emphasis on acquisitions, however, is likely to come in other areas of professional services - loss adjusting, insurance broking, or other, as yet untried, fields. These acquisitions provide balance to the structure of the group by creating different profit streams unlikely to be affected by the same business cycles.

They have also made Abaco an international group very quickly. Some 85 to 90 per cent of 1986-1987 profits came from the UK, 70 per cent property related. Both these ratios are likely to fall steadily, with UK contributions falling to perhaps 50 per cent eventually.

Abaco's rapid expansion has been made possible by what amounts to a substantial act of faith by the investment community, which has kept Abaco shares on a high rating and thus made possible the issue of new paper to make acquisitions. For this, Brown gives a good deal of credit to British & Commonwealth, which took a major stake in Abaco after John Gunn became B & C chairman in 1986.

The B & C stake, currently at 28 per cent, has raised the profile of the group, and indeed B & C has helped Abaco in transforming the group structure. B & C recently sold to Abaco its 50 per cent stake in Cayzer Steel Bowater, the insurance broking company, while B & C picked up Abaco's development capital business.

At the same time, Abaco sold off its property development activities, the original business of the shell company, making Abaco a pure, fee-based, professional service group.

B & C last January also picked up Goldie to work as a B & C co-managing director, while he retains his Abaco position as non-executive deputy chairman.

The large B & C stake has raised questions about Abaco's independence and future, some of which Brown says "rankles." B & C has been an important supporter, but not the originator of Abaco's strategy.

Brown will not rule out the possibility of an eventual takeover by B & C, but says he doubts this would be in Abaco's best interest for the time-being. Abaco is establishing itself as a manager of professionals, and the key is to maintain a corporate culture where professionals feel happy and motivated.

Employee share schemes

Cheaper capital needed

Dina Medland explains how even greater growth could be achieved

THE BEST WAY FOR the Government to promote wider share ownership in the UK would be to provide cheaper capital to companies introducing employee share schemes. This is a conclusion of a survey of 110 companies conducted this summer by George Copeman, deputy chairman of the Wider Share Ownership Council.

Some 89 per cent of the companies surveyed had employee share schemes and the remainder planned to introduce them, Copeman told the Fourth Annual Forum for Companies with Employee Share Schemes in London earlier this month.

A clear majority - 71 per cent - favoured cheaper capital for the financing of employee share ownership plans (ESOPs), which have shown a steady rate of growth in recent years. In March the London Stock Exchange reported that about 1.5m people owned shares in companies they worked for.

Companies were also keen on a linkage between management and general employee share schemes in such a way that extra tax relief would not be available for "super" share options for top management if the company did not also have a general employee share scheme, the survey found. A proposal suggesting such a link was supported by 67 per cent of the participants.

The Wider Share Ownership Council, an independent body founded in 1958 and based in the City of London, has campaigned for four years on the need to link executive share options to general employee share schemes.

This has been part of its campaign to extend share ownership, which has witnessed a considerable success in the last few years, with the number of individual shareholders reaching 20 per cent of the adult population in the UK today. The Council's fear that executive option schemes would be introduced faster than schemes for general employees has, it says, been borne out by events - in three years 3,418 applications for approval of executive schemes have been received by the Revenue, while it has taken eight years for the total applications for both profit-sharing schemes and savings related share option schemes to reach 1,685.

Copeman proposes that there should be tax relief for super options so that capital gains are subject only to capital gains tax, not income tax, but conditional on the company also having a general employee share scheme.

Such an arrangement could benefit both government and industry, by being cheaper for government than any other form of tax relief and yet obliging fast-growth companies to introduce a share scheme for all their employees, Copeman suggests.

OPT Trade unions, too, are beginning to change their views on the spread of individual share ownership. At the Trades Union Congress in Blackpool last week, delegates supported a review of policy over the next year which will examine ideas such as ESOPs, although they maintained their opposition to the Government's privatisation programme.

OPT The privatisation programme has, of course, been the major factor in recent surges in share ownership. A recent survey by the union-backed Labour Research department found that the 13 share sales in nine companies had initially attracted about 7.5m small shareholders, declining to 5.6m this year.

In the survey conducted by Copeman, 61 per cent of those companies favoured additional corporation tax relief for firms with share schemes - an idea that has been tried, in the form of a tax credit rather than a cut, in both France and the US.

OPT Such relief is "expensive but logically justified by the fact that fast growth companies are the ones which have their corporation tax bill reduced by the way they have to spend revenue in the process of growing. If they are not willing to share with employees the capital they create when growing, it may be argued that they should pay a higher rate of corporation tax than those which also share," says the paper.

Linking profit-related pay schemes to profit sharing schemes appealed to 61 per cent of the companies surveyed. Copeman suggests more companies did not respond favourably to this idea because many have come to realise that, "as the law stands now, it is in fact possible to link profit-related pay to other incentive rewards."

He suggests, however, that, to achieve maximum benefits, profit-related pay must be introduced on a widespread basis where at least 20 per cent of employee reward is profit-related - partly in cash, partly in shares and partly in pension booster. "This provides immediate incentive, medium-term incentive and longer-term security, plus encouragement to stay and make a career with the business that offers this kind of package."

Business courses

Protectionism and International Banking, Frankfurt. October 29-31. Fee: DM550 or $300. Details from Ms Jill Thompson, Istitut der deutschen Wirtschaft, Gustav-Heinemann-Ufer 84-88, D-5000 Koln 51.

Corporate Leadership in Turbulent Times, Zurich. October 5-7. Fee: SFr1,380 (spouses SFr700). Details from Gottlieb Duttweiler Institute, The <<Green Meadow>> Foundation, CH-8803 Ruschlikon/Zurich. Tel: 01-461 37 16, Telex:826510, Fax: 01/461 37 39.

International Securities Business and the Financial Services Act, London. October 14. Fee: £340, plus VAT. Details from Financial Times Conference Organisation, 2nd Floor, 126 Jermyn Street, London SW1Y 4UJ. Tel: 01-925 2323. Telex: London 27347 FTCONF G.

Sales Force Management, London. November 2-6. Fee: Nonmembers BFr85,000, Members BFr76,500. Details from Management Centre Europe, rue Caroly 15, B-1040 Brussels. Tel: 32/2/516.19.11., Telex: 21.917,61.748, Telefax: 32/2/513.71.08

Organisational Change: Performance Through Intervention, Uxbridge, Middx. October 8-9. Fee: £345. Details from The Secretary, Management Programme, Brunel University, Uxbridge, Middx UB8 3PH. Tel: 0895 56461 Extn. 215.

Effective Speaking and Case Presentation, London. October 21-22 and November 23-24. Fee: £390. Details from Course Organiser(GM18), Management Development Centre, City University Business School, Frobrisher Crescent, Barbican Centre, London EC2 8HB. Tel: 01-920 0111 Extn 275. Fax: 01-588 2756.

THE ARTS

Architecture/Colin Amery

Removing the mystique of commissioning

In a foreword to a new Government publication, *Art for Architecture*, two ministers, the Minister for Housing and Planning and the Ministers for the Arts, sign the following remarkable statement: "We take it for granted, in the enduring buildings of our architectural heritage, that art and architecture go hand in hand. Sculptures, tapestries, iron-work, stone, and wood-carving, whether on a grand scale or in a simple setting, gladden the eye and raise the spirits. Enrichment of this kind was stripped away in the stern functionalism of recent times and we are beginning to realise just how much we have lost and how unsatisfying and lacklustre building can become."

They go on to say that style and image are now, in architecture, "as important as function."

These are fascinating glimpses of the ministerial mind. Can we now take it for granted that the official style for Thatcherite Britain is to be enriched, colourful architecture encrusted with decoration — Victorian values in fact? Fortunately the editor of this publication, Deanna Petherbridge, is herself a serious artist, and she puts the yearning for embellishment by those carrying the yoke of ministerial responsibility into a highly intelligent perspective.

The purpose of the book is to be a manual and a handbook for all those interested in the commissioning of works of art or craft for new buildings or renovations. There can be no doubt that this is an intensely important subject, and this is a practical and useful book that approaches the abstruse world of art commissioning in a clear and useful way.

The commissioning of works of art as part of new architecture should really be an almost automatic procedure. As this handbook points out, it is not a difficult procedure and much of the well organised information here about contracts, working methods and advisory bodies that help to find the appropriate artists, demonstrates that there are no mysteries.

Kevin Atherton's "Platform Pieces" on Brixton Station commissioned by British Rail

What always makes me anxious about the whole superstructure of art panels, arts councils, regional arts associations, etc., is that they have an inevitable tendency to bureaucratise the relationship between patron and artist. Too much art in the United Kingdom is committee inspired and emasculated as a result. Strong individual patrons backing their own hunches are more important than any official sponsorship. Support in the public sector is, of course, important but it has to avoid the blandness of officialdom.

There is an impressive range of examples in this book, carefully chosen to illustrate varieties of scale and quality. The refurbishment of Unilever House under the firm direction of Pentagram shows how a complex interior can be embellished by the same use of artists and craftsmen as was so often done during the Arts and Crafts Movement. Working within the spirit of a major 1920s building seems to have inspired contemporary work that is complementary to the original. The fact that Unilever has an annual art purchasing budget of some £20,000 is an encouraging sign of a continuing interest in patronage and collecting by a major company.

The use of craftsmen and artists at Oriel House in London from the earliest stage, working with architects Whitfield Partners, has proved convincingly that it is possible for crafts to help underline the architectural effect. The feeling today among clients and architects is that Le Corbusier got it wrong when he wrote: "Let me as an architect affirm this: architecture is an event in itself. It can exist quite independently. It has no need of painting and sculpture."

There are still some older architects and teachers who would confidently echo Le Corbusier's words; they are the architects who would just about tolerate an artist's work if it was placed in front of their building as a mere note of contrast or homage. The Alexander Calder or the ubiquitous Henry Moore plonked on the grass in front of indifferent modern buildings is all too familiar.

What is rare, and is only touched on in this report, is the idea that an artist, or artists, should work in the design team from the very beginning. The suggestion is that architects would find this difficult for two reasons: one, that architects consider themselves artists anyway and there is too much potential for conflict with too many artists on the job, and the other—which is interestingly explained by Deanna Petherbridge—is the great difference within the UK in training methods for artists and architects. It is sometimes difficult for them to speak the same language.

It may be because of this language difficulty that some of the more successful projects illustrated here do not have much to do with architecture. The Stockholm underground is really one enormous community art gallery, and in Seattle, where there is an enlightened one per cent policy—the percentage of the total building budget for a public project which is devoted to commissioning art—the more elaborate earthworks and environmental schemes seem the most successful.

Again Seattle demonstrates the effectiveness of using artists in the design process from an early stage. The sections of this report on how to commission and how to be a patron should be required reading for all property developers. Maintenance and the problem of vandalism are also dealt with in a useful way and addresses of bodies who can help the patron are all listed.

What a report like this cannot do is give criteria of quality. This is a difficult area, and it is all very well saying that we live in times of artistic pluralism. I have found that patrons often look for solid recommendations of quality, they are reluctant to take risks and have a tendency to go for the established names so that they can see their money has been well spent.

Fashion also plays a part in the development of individual taste and in the climate for commissioning. If *Art for Architecture* can inspire a creative dialogue between the patron and the artist, then the enrichment of the environment that we all seek will not only happen but be understood.

Art for Architecture, edited by Deanna Petherbridge: is published by Her Majesty's Stationery Office, London at £14.95.

★

In my article last week about Sun Life of Canada in Basingstoke, I should have mentioned that Jones Lang Wootton Development Services initiated the selection of—and helped choose—the successful architectural practice.

The Trojans at Carthage/Grand Theatre, Leeds

Andrew Clements

The production of Berlioz's *The Trojans*, to be shared between Opera North, Welsh National and Scottish Operas, got under way almost exactly a year ago when the first part, *The Fall of Troy*, was staged by Opera North. It moved to Cardiff in February; there WNO added the second part and gave performances of the complete work, which was reviewed on this page by Max Loppert. Part 2 alone has now been brought to the Grand Theatre, Leeds: Opera North is presenting Tim Albery's production of *The Trojans at Carthage* with its own cast and conductor, to seal what must surely be regarded as one of the highest achievements of British opera in the 1980s.

The post-industrial Carthage conjured by the designs of Tom Cairns and Antony McDonald, in which muskets and sten-guns line up alongside gilded arrows and swords, formal suits confront peasant smocks, and everyone wears sensible shoes, instantly and resonantly recalls the claustrophobic images that encapsulated Troy in the earlier segment. The diamond-hard brilliance of that earlier staging is not repeated here; the work itself lacks the same intense directness, and its set-pieces and points of repose are taken by Albery as the opportunity for a rich feast of symbolism.

The realisation of "The Royal Hunt and Storm" as a nightmare sequence in which Dido wanders through the world of her own fantasies and fears is splendidly vivid (though the dance-sequence which follows seems to me one of the production's few lapses), while the image that dominates the final scene—the crimson-strewn bed from which Dido tears sheet after sheet in ever-mounting fury — becomes an indelible crystallisation of desperate grief.

This gallimaufry of signs does sometimes threaten to overwhelm the protagonists; not all of them are as fully defined vocally as one could wish. At least Sally Burgess's Dido is consummately successful—a portrayal that tempers regal hauteur with sensuous vulnerability, and whose lines are delivered with a searing directness, shaping the final act on a smooth curve towards the self-destruction of the final scene. The lithe, supremely intelligent queen of the first two acts seems oddly matched with this surly Aeneas; William Lewis affects a Vickers-like vocal roughness, lashing syllable against syllable without that great singer's dramatic charge, and stalks Carthage with macho sullenness.

Sally Burgess and Patricia Bardon

Though some of the remaining roles are taken with more dramatic than vocal distinction, there are notable exceptions—Patricia Bardon's Anna, a voice of genuine contralto richness as yet used stiffly and with some stage awkwardness, and Paul Nilon's Hylas, who seizes the opportunity of his final-act song with immaculate phrasing and affecting emotional directness to generate one of the evening's highpoints. Yet despite any shortcomings, the remaining characters have been drawn by Albery with equal detail: the hip-flask toting Iopas of Barry Banks, rigid, rureaucratic Narbal of Matthew Best, rough-hewn Pantheus of Stephen Richardson.

Giving the action depth, resonance and ritualistic energy, as in *The Fall of Troy*, is the Opera North chorus, vividly alive from its assorted oblations in the first act to the final words of the opera, when it hurls its blood-spattered warning directly into the audience for the production's final coup. David Lloyd-Jones conducts with fierce, yet never over-emphatic rythmic bite, and he obtains first-class responses from his orchestra; the ocasional spectacular solo lapses may have been glaringly obvious, but they did not reflect the true quality of the playing. It seems unlikely this company will ever have the wherewithal to present both parts of *The Trojans* in a single evening, but its version of the second part should be seen with all possible speed.

Musica Nova/SNO Centre, Glasgow

Arthur Jacobs

Modern music usually enters sneakily into orchestral programmes. But the Scottish National Orchestra's triennial promotion, Musica Nova, glorifies it in a week of concerts, talks and other events, some of them with free admission. One hardly knows whether first to congratulate the orchestra —and the University of Glasgow, its partner in the promotion—or to deplore its evident acquiescence in the apathy of the public. In a city of 800,000 people, the concerts are held in a hall which accommodates no more than 250. On Thursday night, even with such a relatively fashionable composer as Takemitsu on the programme, it was hardly full.

Since his Gyindebourne operas on Maurice Sendak's stories for children, Oliver Knussen must now also count in these circles as a familiar figure. The two less familiar who completed Thursday's programme were widely separated: Mark-Anthony Turnage is only 27 but if suicide had not ended Bernd Alois Zimmerman's career in 1970, he would be approaching 70. The five works (two by Knussen, one being a brief but effective fanfare) were to have been conducted by Knussen himself. Though present, he had been unwell and the conducting was undertaken by Richard Bernas with his usual total professionalism.

If any one present had not previously taken note of Turnage, his *Night Dances* would surely have seized their attention. Written when he was only 20, it has a lucid form and a resourceful handling of an unusually constituted orchestra. Between two dance-movements an interlude presents a long solo for muted trumpet, the composer's tribute to the jazz musician Miles Davis. It adds a wistful blues-like element to music which elsewhere has the dense texture and feverish energy of, say, Schoenberg's pre-1914 *Five Orchestra Pieces*.

I cannot think that Zimmerman was well represented by his *Musique pour les Soupers du Roi Ubu*, a work of parody and collage inspired by Jarry's surrealistic play. Collage, or multiple quotation and distortion from other composers, too easily becomes a game of comic recognition: it takes a Berio or a Shostakovich to do it seriously and well. More satisfaction was given Takemitsu: under the typically puzzling title of *Window/Dream*, he allows a shimmering, impressionistic texture to gather force and focus as it nears its tonally anchored conclusion.

The title *Music for a Puppet Court* might, one thinks, also be Japanese. But no; Knussen gave it in 1983 to four short movements which involve a re-treatment of music ascribed to John Lloyd, a shadowy court composer of Henry VIII. Like Peter Maxwell Davies in similar archaeological mood, Knussen is in danger of seeming to play with, rather than play on, his material. But real feeling occasionally emerges too.

The apparent relish which the orchestra brought to the whole programme deserves acknowledgement. I can only hope that some of the works are revived in the orchestra's regular season.

18th century British painting at the Tate

The Tate Gallery is holding a major exhibition, opening October 15, dedicated to the emergence of the British school of painting during the first half of the 18th century, *Manners and Morals: Hogarth and British Painting 1700-1760*.

Hogarth will be represented by over 30 works, including his *Conquest of Mexico* and the *Rake's Progress* set, and also a number of works never previously exhibited.

Other artists include Lambert, Scott and Wilson as well as works by Canaletto during his London period. The exhibition closes on January 3.

Hogwood appointment

Christopher Hogwood has been appointed Director of Music of the St Paul Chamber Orchestra, as from September 1988. Also, his contract as artistic director of the Handel and Haydn Society, the oldest performing arts organisation in the US, has been extended for a further two years until 1991.

Maazel's Beethoven/Barbican

David Murray

On Saturday at the Barbican Hall the London Symphony began its new season with Beethoven under Lorin Maazel, and above it the sponsor's name displayed in friezes of what seemed to be cottonwool balls. These latter were surely over the top (the Philips presence was sufficiently established by the programme-covers, and by the flysheets on every seat): I remembered the old provincial days when every distinguished pianist visiting Oxford had to perform upon an instrument egregiously ornamented with the name of the piano-rental firm. Though sponsorship is greatly welcome these days, it needn't invade the stage.

Maazel's readings of Beethoven's Fourth and Ninth Symphonies were much more temperate—in the case of the Fourth, quite stiflingly so. The introduction boded ill, wrung out relentlessly beyond any possible returns in the way of suspense or a good springboard for the Allegro vivace. That, and both the other quick movements, were taken just tamely enough to disconnect their springs: the Finale in particular proceeded at a bland trot, with Maazel refusing to point up any of the witty twists in the strings' *moto perpetuo*. The whole seemed comfortably anaesthetised, with negative assistance from the backward woodwinds—the LSO strings, full and forward, regularly buried them.

Probably Maazel hasn't yet got the measure of this tricky hall; or perhaps the LSO woodwinds' favourite game of musical chairs should have gone another round or two—neither before nor after the interval did the first-desk players make a cogent quartet. In the Ninth, however, it mattered less, and Maazel's sedulous sobriety was better found. The opening Allegro, if hardly visionary, was at least strong and purposeful, like the Scherzo; and Maazel's paragraphing in the noble Adagio was literately plain.

The outset of the Finale administered no shock, and despite the cellos' hearty recitatives Beethoven's fraught, fragmentary reprises had no more weight than a potpourri. (Curious that Maazel's instinct for such musico-dramatic effects, so sound in Mahler, should go adrift in Beethoven!) Fortunately the voices on hand were fervently committed enough to rescue the rest. Peter Meven's commanding bass captured the field for them at once, and the London Symphony Chorus were dauntless—clean, bold attack, unshakable pitch, and pianissimos such as the LSO itself never managed throughout the evening. Other soloists good: Wilhelmenia Fernandez and Linda Finnie firmly assured, Kurt Streit's attractive Mozart-tenor very promising, if a bit lightweight amid this lusty company. The collective result was still solidly bracing, and would have crowned a bigger conception of the whole work.

Macbeth/Lyttelton

Martin Hoyle

A snobbish critic once remarked that the cinema is the shallowest of the arts since it depends for its impact on the visual, the most obvious and immediate means of expression. That critic would doubtless dismiss the Ninagawa Company's *Macbeth* as superficial, for this is pre-eminently visual theatre. Grouping, light, scenery and movement come from an ensemble not excessively stylised but apparently incapable of the ungraceful.

As the Toho Company they brought *Macbeth* to Edinburgh two years ago and performed *Medea* at the festival last year. Both are now in London: next week they give their spectacular Euripides in the Olivier.

Of course there are cultural differences. The male witches are frankly ludicrous: pantomime dames making goon-like noises. (If intended humorously they met with a solemnly respectful silence on the first night.) The background music is drawn from the more caramelly popular classics — lucky Japan evidently has no Hundred Best Tunes to taint music with the wrong associations. On the first night some technical hitches included brief candles that flickered electrically or fell over. But there are moments of greaty beauty and dramatic power: Lady Macbeth's sleepwalking is a full-blooded mad scene as she moans and sprawls on the ground; Macbeth picks off his opponent with weary assurance under the falling blossom in the final battle.

Like the travellers who hear the story of *Rashomon*, two bent figures hobble up the theatre's aisles to draw back ornamental shutters on the history of Macbeth. They watch, eating a meal, mostly impassive, from each side of the proscenium, moved to grief by the skewering of the Macduffs' baby and finally kneeling in prayer to the troubled shades on stage before closing the doors and passing on. Much of the action is seen through a panelled grille: Banquo's murder, the haunted feast. Malcolm's sojourn in England is overshadowed by giant statues of grotesque devil warriors. The advancing candlelight flickers through the slatted back wall to announce Lady Macbeth's somnambulism.

Komaki Kurihara is no hard-driven and hard-driving battleaxe. She is visibly shaken after planting the bloody knives on the sleeping grooms; and our first sight of the usurpers crowned makes it plain that already they are bowed under an invisible burden of guilt.

As Macbeth Masan Tsukayama grows paradoxically nobler with guilt and therefore resignation. The stylised battle, where he disposes of a stage full of enemies watched by the immobile Macduff, as inexorable as fate itself, has a dash of the Fairbanks; but an inescapable destiny hovers in the "fog and filthy air" that so often wraps the stage action in mist. The unfailing pictorial quality of Yukio Ninagawa's direction on Kappa Senoh's set, poetically lit by Sumio Yoshii, is always at the service of the plot and characters. It adds another dimension to the mere story. Superficial indeed!

Arts Guide

Music/Monday. Opera and Ballet/Tuesday. Theatre/Wednesday. Exhibitions/Thursday. A selective guide to all the Arts appears each Friday.

September 18–24

Music

LONDON

Tamas Vasary, piano and director with the Peterborough String Orchestra. Haydn, Mozart and Larsson. Queen Elizabeth Hall (Tue). (928 3191).

London Symphony Orchestra and Chorus conducted by Lorin Maazel, Mahler 2. Barbican Hall (Tue). (638 8891).

Academy of St. Martin-in-the-Fields chamber ensemble directed by Kenneth Sillito. Mendelssohn and Schubert. Queen Elizabeth Hall (Wed).

London Philharmonic conducted by Klaus Tennstedt with Maurizio Pollini, piano. Webern, Beethoven and Brahms. Royal Festival Hall (Thur). (928 3191).

London Symphony Orchestra conducted by Lorin Maazel. Mahler 5. Barbican Hall (Thur).

PARIS

Orchestre Philharmonique de Montpellier Languedoc-Roussillon conducted by Cyril Diederich, Montpellier Opera Choir, Orfeo Catalo Choir: Berlioz (Tue). Salle Pleyel (4561 0630).

Nicanor Zabaleta, harp; Monique Frasca-Colombier, violin and alto, Pierre-Alain Biget, flute: Mozart, Debussy, Parish-Alvars, Bach (Tue). Saint-Severin Church (4583 7955).

Orchestre National de France conducted by Georges Pretre, Barbara Hendricks, Florence Quivar, Jean-Philippe Courtis: Benvenuto Cellini in concert version (Wed). Theatre des Champs Elysees (4720 3637).

Nouvel Orchestre Philharmonique conducted by Marek Janowski: Weber, Mendelssohn, Saint-Saens (Thur). Theatre des Champs Elysees (4720 3637).

Orchestre National de l'Ile de France conducted by Jacques Mercier, Choir Ars Musicae: Debussy, Ravel, Schmitt (Thur). Salle Pleyel (4561 0630).

Ensemble Orchestral de Paris conducted by Philippe Herreweghe, Frederic Pelassy, violin, Choeur de la Chapelle Royale, Collegium Vocale de Gand: Mendelssohn (Thur). Theatre de la Sorbonne (4562 6737).

ITALY

Milan: Teatro Alla Scala: Rafael Fruhbeck de Burgos conducting Haydn, Ravel with pianist Alicia de Larrocha, and Bartok (Wed and Thur). (80 91 26).

Florence: Teatro Comunale: Israel Philharmonic Orchestra conducted by Zubin Mehta, Prokofiev and Tchaikovsky (Mon and Tue). (277 92 36).

NETHERLANDS

Rotterdam, Doelen. James Conlon conducting the Rotterdam Philharmonic, with Bella Davidovich, piano: Riedstra, Tchaikovsky, Berlioz (Thur). Recital Hall: The Netherlands Brass Quintet: Ewald, Forsyth, Bach, Pachelbel, Scarlatti, Rossini (Tue). (413 2490).

Utrecht, Vredenburg. Ferdinand Terby conducting the North Holland Philharmonic: Bernstein, Milhaud, Bizet, Smetana, Rossini, Borodin (Wed). Antoni Ros-Marba conducting the Netherlands Philharmonic, with Alexander Rudin, cello: Mozart, Haydn, Schubert (Thur). (31 45 44).

The Hague, Dr Anton Philipszaal. The Netherlands Philharmonic Chamber Ensemble under Vladimir Spivakov, violin: Denisov, Mozart, Haydn, Schubert (Mon). (669 810).

WASHINGTON

National Symphony (Concert Hall): Mstislav Rostropovich conducting, Gary Hoffman 'cello, David Evitts baritone, William Neil organ with Oratorio Society of Washington directed by Robert Shafer. Carter, Piston, Copland, W. Schuman (Tue); Mstislav Rostropovich conducting. Toch, Mozart, Berlioz (Thur). Kennedy Center (254 3776).

NEW YORK

Carnegie Hall: Vienna Philharmonic. Leonard Bernstein conducting. Christa Ludwig mezzo-soprano. Bernstein, Mozart, Sibelius (Thur). (247 7800).

Juilliard Symphony (Juilliard School): Sixten Ehrling conducting. Beethoven, Sibelius (Wed). Lincoln Center.

Merkin Hall (Goodman House): Roger Press piano recital. Franck, Robert Casadesus, Rachmaninoff, Chopin, Prokofiev (Mon). 67th w. of Broadway (362 8719).

Kaufmann Hall: Jeffrey Siegel piano recital. Brahms, Liszt, Gershwin (Tue). 1395 Lexington Av. (831 8603).

New York Philharmonic (Avery Fisher Hall): Sir Colin Davis conducting. Berlioz (Thur); Sir Colin Davis conducting. Sibelius and Vaughan Williams (Tue). Lincoln Center (874 2424).

CHICAGO

Chicago Symphony (Orchestra Hall): Sir Georg Solti conducting, Murray Perahia piano. Bartok, Schumann, Tchaikovsky (Thur). (435 8111).

TOKYO

Tokyo Metropolitan Symphony Orchestra, conducted by Jean Fournet. Ravel and Saint-Saëns. Suntory Hall (Mon). (822 0727).

Yomiuri Nippon Orchestra conducted by Heinz Rogner. Strauss, Ravel, Brahms. Tokyo Kosei Nenkin Hall, Shinjuku (Tue). (270 6191).

Tokyo Philharmonic Orchestra, conducted by T. Otaka with Nai Yuan Hu, violin. Mendelssohn, Bruckner. Suntory Hall (Tue). (256 9696).

New Japan Philharmonic Orchestra conducted by Seiji Ozawa with Viktoria Mullova, violin. All-Brahms programme. Suntory Hall (Thur). (573 3588).

Kammer Orchester Berlin, conductor Heinz Schunk; oboe, Jurgen Abel. Bach. Hitomi Hall, Showa Women's College, Sangenjaya (Thur). (481 2590).

Traditional Japanese: Shin-nai Bushi story-telling accompanied by shamisen, banjo-like instrument. Soloist Tsuchiyo Fujimatsu. Mitsukoshi Theatre (Wed). (241 3311).

Beethoven/Elizabeth Hall

Max Loppert

The Beethoven Series devised by Roger Norrington and the London Classical Players, which is also being preserved on record, continued on Thursday with two symphonies and a piano concerto. A long concert, in clock time (and made longer by the between-movement applause that, with historical justification but nevertheless slightly tiresomely, the conductor encourages). In every other aspect, though, it was one of the least time-heavy Beethoven concerts, and one of the most completely exhilarating and enjoyable, that I can ever remember attending.

It was a concert so full of good things that one hesitates to list some for fear of inevitably neglecting others; but it climaxed in a "Pastoral" so light of heart, fleet of foot, and shot through with gloriously glowing colour, that it sent one out onto the concrete South Bank pathways wanting to dance and shout for joy. Pleasure in all the benefits an authentically disposed and instrumented Classical orchestra can confer on Classical music—the clarity of balance, the ease of rythmic pointing, the newly intensified impact of coloristic effects—has been described so often in recent times that the list of pleasures is in danger of becoming a litany.

Yet in respect of this "Pastoral" the danger must be faced, the litany repeated; for the spring in the syncopations of Thursday's performance, the stinging yet exhilarating pungency of dissonances (such as the wind-against-wind seconds in the Andante)- where felt at fullest strength, with new directness — no-one in the hall could have remained in any doubt that this work contains the most thrilling, profound, and influential of all musical storms. It was also a wonderfully singing performance: unlike in the previous concert of the series (during the Beethoven Experience earlier in the year), Norrington's concern for authenticity of Beethoven tempo did not preclude lyrical articulation or a sweeping energy of line.

Less space remains, alas, to do justice to the concert-opening account of the First Symphony — a work Haydn-like in wit and science that here received a rare, total recognition of those Haydn-like qualities. In between, Melvyn Tan played (on the fortepiano, of course), the Second Piano Concerto, a work unjustly neglected and on this occasion treated to an ideal balance of parts.

★

In last week's notice of the Scottish Opera *Aida* I mistakenly named the producer of Opera North's recent production as Andrei Serban; he was, of course, Philip Prowse.

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Monday September 21 1987

Prospects for UK growth

IS Mrs Thatcher's government about to fulfil the dreams of that well-known socialist economist, the late Lord Kaldor? When attempting to explain the relatively rapid growth of some economies after the Second World War, he emphasised the importance of two prior conditions: substantial unemployment and an undervalued real exchange rate. Unintentionally, perhaps, eight years of Thatcherism have produced just those conditions.

Rapid export-led growth of output could, Lord Kaldor asserted, produce a sustained reduction in unemployment, since there would then be no problem with the balance of payments. Furthermore, because output would grow rapidly as labour was absorbed into employment, there would also be rapid growth of productivity. With high productivity growth, there could be both fast growth of real wages and a competitive real exchange rate. More important still, once a rapid and stable rate of growth had been enjoyed for a number of years, investment would rise to make growth self-sustaining in the long term.

Such a virtuous circle is by no means inconceivable. Indeed, after some six years of steady growth, with growing employment and an exchange rate at which production of tradeables (import-substitutes and exportables) appears to be quite profitable (the best definition of what is meant by a "competitive real exchange rate.") the dream may become reality. Given Lord Kaldor's profound dislike of monetarism, this development would, presumably, have surprised him.

Relaxed view

Certainly, the news last week supports the optimistic view. The economy is growing at an annual rate of 4 per cent, while manufacturing output is estimated to have grown at an annual rate of 5 to 5.5 per cent in the three months to July, with output finally returning to the level of 1979. Labour is also being absorbed, with employment rising 265,000 over the year to the first quarter of 1987 and unemployment falling to 414,000 in the year to August.

In addition, as Lord Kaldor would have wished, the balance of payments does not look likely to be a problem. The preliminary estimates suggest a tiny deficit in the second quarter of 1987. The current account position appears to be deteriorating, but a country with net external assets (private and public) of well over £100bn can afford to take a very relaxed view and continue to grow faster than its markets.

For the virtuous circle story to be convincing, however, one would hope to see a sharp rise in investment as growth accelerates and unemployment falls. Here the picture is darker. The volume of investment in the past 12 months was just 3 per cent higher than in the previous 12 months, while investment in manufacturing has been highly erratic, with the first half of 1987 no higher in real terms than the first half of 1986. There is probably room for much greater efficiency in the use of capital, but there is also a limit to this process. If growth is to be sustained at a level that will absorb the unemployed, a sustained rise in investment will be required.

Problem areas

Ironically, the achievement of sustained growth is threatened by developments in two areas, one where liberalisation is most complete, the financial markets, and the other where liberalisation has gone least far, the labour market. The rapid growth of broad money is the result of private credit expansion. If required, the Government must be prepared to raise interest rates again. On balance, however, the dangers of the consequences of monetary growth per se may prove exaggerated in a period when real wealth and real interest rates have risen.

It is the labour market that remains the chief concern. The underlying increase in earnings was 7¾ per cent in the year to July in the economy as a whole and 8¾ per cent in manufacturing. Productivity growth in manufacturing remains above 7 per cent a year, but the question is whether this extraordinary rate is sustainable without greatly increased investment. Worse, earnings may now be rising more quickly. If unit costs were to rise even a little faster and, especially, if the terms of trade were to deteriorate, there would be the customary conflict between containing inflation, probably by holding the exchange rate, and maintaining profitability.

With the UK economy on the brink of a further acceleration of growth, the Government must try to help contain the rise in unit labour costs. Full membership of the EMS could lower the level of nominal wage concessions, while tax cuts could usefully be focused on reducing the real wedge between the return to labour and the cost to employers. The dream of a virtuous circle of rapid growth can be made a reality, but only if the traditional nightmares of uncontrolled credit growth and wage inflation are avoided.

The way ahead in arms buying

NATO GOVERNMENTS spend more than $200bn a year buying arms to equip their forces. On both sides of the Atlantic in recent years they have been trying to get better value for this very large amount of taxpayers' money. They may now have to redouble these efforts.

Conventional forces are, relative to their effect, more expensive than nuclear ones and conventional defence will become more important once medium-range nuclear missiles are removed from Europe by US-Soviet treaty. At the same time, western publics will naturally be loath, in the warming climate of relations with Moscow, to spend any more on defence.

The obvious value-for-money policies for governments to pursue are to curb the ambitions of their military services, so that only the most cost-effective weapons systems are developed, and to encourage the largest number of companies to compete for defence contracts so that the discipline of the market place is exerted upon prices.

Competitive model

On competition, at least, the Europeans have rightly seen the US as a model. The US has made big savings by putting complete systems, components and spare parts to competition, aided, of course, by the size of its industrial base. True, the US quest for competition has recently been carried to some excess, with the US army, at one end of the spectrum, spending $5,400 to obtain competitive data on a $11,000 spares purchase, and, at the other, the US Navy planning competition in the making of Trident submarines and missiles.

But this has not discredited the basic concept, and with good [illegible]se competition is becomi[illegible] ne buzzword around the arma[illegible] nts directorates of Europe. A novel instance of it occured last week in London. Representatives of the defence industries of Britain and France, countries with the largest but most self-centred military procurement in Europe, met to try to seek opportunities in each other's markets. Britain and France both face severe defence budget constraints and are now apparently ready to buy more defence equipment from beyond their national borders to make savings.

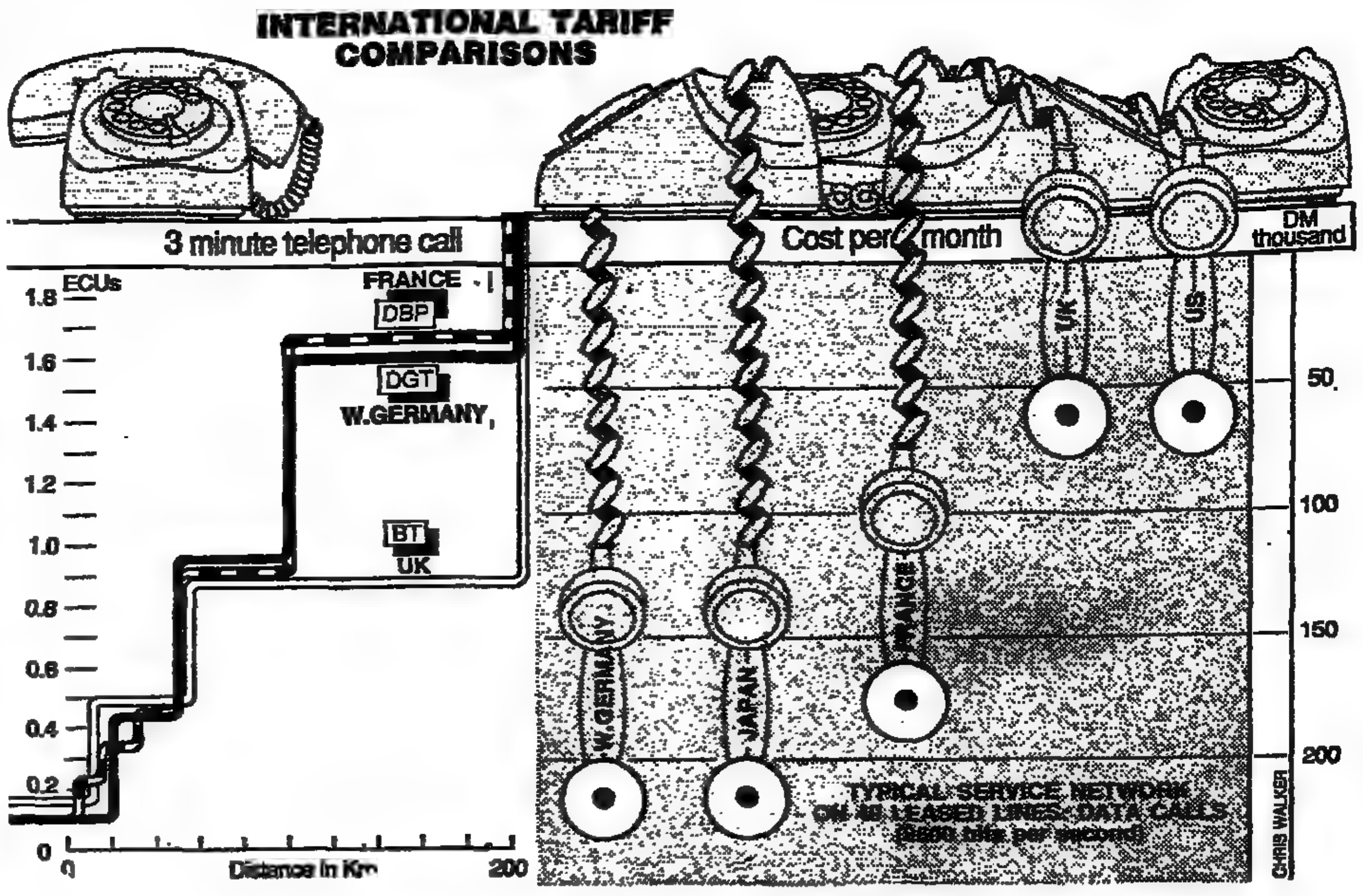
Wasteful programmes

However, there is another side to Pentagon procurement practices which Europe should not want to emulate. This became clearer than ever last week with the news that Mr Richard Godwin, number three in the Pentagon hierarchy and nominally in charge of the $140bn procurement budget, is to resign. Appointed "procurement czar" to master the Pentagon bureaucracy, Mr Godwin has found himself mastered by it, and unable to control the procurement chiefs of the three branches of the armed services.

The historic decentralisation of US defence procurement, which has flourished under a lax manager like Mr Caspar Weinberger, has resulted in a wasteful proliferation of programmes —the US Navy buys 17 different types of aircraft — and of regulations. Some companies would rather forego US defence business than wend their way through a 150,000 strong bureaucracy and 30,000 pages of procurement rules.

There is a salutary warning here for Europe. It is many years since European defence ministries, chiefly under financial pressure, centralised their purchasing. But they still present companies with the most complex procurement procedures among government bodies. Defence contracting rules need to be kept as simple and transparent as possible — particularly if European companies are to be expected to seek business beyond their home bases.

A commission looking for ways to free West Germany's telecommunications market from Bundespost control has just produced a controversial report. Peter Bruce, in Bonn, reports



A recurring fault on the line to reform

RELAXING the Bundespost's feverish grip on West Germany's telecommunications market was never going to be easy, but Eberhard Witte thought he might be in with a real chance when the Government asked him to assemble a commission to recommend ways to do it. As it turns out, he got about half-way.

Bonn had to do something. With 500,000 employees, the Bundespost is Europe's biggest employer; it has total control over what passes through West German lines and over what is attached to the end of them.

The cost of leasing a line from the Bundespost is among the highest in the world. With the existence of a Posts and Telecommunications Ministry enshrined in the Basic Law, the Bundespost has been untouchable for decades, becoming a test bed for West German companies to try out technology while excluding serious foreign competition.

The edifice started to crack five or six years ago. Major telecoms users began to complain loudly of high charges and absurd rules governing the computer equipment they were allowed to use. This was restricting Frankfurt's growth as a financial centre, and the frustrations felt by foreign (particularly American) banks and financial institutions trying to sell sophisticated services in West Germany brought pressure on Bonn to a head.

Helped by the Economics Ministry, run by the liberal Free Democrats (FDP) and a haven for free marketeers, the US pressed Bonn to liberalise the market. The omnibus Trade Bill now passing through the US Congress clearly has the Bundespost in mind when it refers to difficult international telecoms markets.

Into the breach 2½ years ago stepped Professor Witte, a Munich-based economist. He selected (or was helped to select) 11 other commissioners from business, the main political parties, the trade unions and academia. The big equipment suppliers had their people there too. But while the Government was quick to use the mere existence of the commission as evidence of its desire to do something, observers noted just how seriously Professor Witte was taking the job.

The commissioners heard dozens of expert witnesses and received even more depositions from interest groups and lobbies. They travelled to Britain, Japan and the US to study deregulation. Initially, there seemed to be a real prospect that their recommendations would cut deep.

It was clear there would be opposition. The trade union and Social Democratic (SPD) commissioners were both opposed to reform. In industry, switch producers like Siemens and Standard Elektrik Lorenz (SEL) had no interest in seeing the network monopoly disturbed. The right-wing Bavarian representative on the commission, Edmund Stoiber, hardly ever turned up to a commission hearing—a demonstration of Munich's lack of interest in the proceedings. Senior Bundespost officials made no effort to hide their contempt for deregulation in the US and UK.

The real measure of the commission's mettle was whether it would propose the establishment of a rival network to the Bundespost, like Mercury in Britain. Professor Witte seems to have started out in favour of this, but the difficulty was finding a home-grown prospect because none of the major equipment producers could be counted upon. The Bundespost is West Germany's biggest investor—DM 18.7bn (£6.3bn) this year—and few large suppliers could survive without its patronage. But there was one hopeful prospect: IBM.

In the early 1980s, IBM had established Satellite Business Systems (SBS), a long-distance network in the US. Professor Witte had hoped that IBM, whose West German subsidiary was not a big network supplier, might be persuaded to develop a network.

But the transmission experiment was an unhappy one. SBS never worked well and IBM struggled to find the right market niches. In June 1985, just two months after the commission began its work, IBM sold SBS to MCI Communications, AT&T's chief rival in the US long-distance telephone market. Commission insiders say the rot set in then and that Professor Witte never really recovered his enthusiasm.

That may not be wholly true. Last September, the commission visited Japan and was more impressed by network deregulation there than by anything it had seen in the UK or the US. Certainly for four of the members, the Japan visit sparked off a split from the majority.

They were Tyll Necker, chairman of the BDI, the West German equivalent of the Confederation of British Industry, Juergen Terrahe, a director of the Commerzbank, representing the chambers of commerce (DIHT), the Economics Ministry representative, Wernhard Moeschel, and a specialist from the FDP, Dieter Fertsch-Roever. Convinced by the Japanese that rival networks improved rather than suffocated telecommunications, they produced a minority report sharply critical of the others.

The Japanese visit was, it is said, also marked by excited exchanges between the trade union representative, Albert Stegmueller, and his colleagues. Mr Stegmueller opposed any changes to the Bundespost and was alarmed at the influence the visit had had on the commission.

After Japan, there was little work left to do. But the Government was running up to a general election in January of this year, to be followed by four difficult state elections. Fearful that the SPD and the unions would raise a scare about postal charges going up and the telephone service becoming more business-oriented, the Government held off completion of the report.

However, Professor Witte, in an effort not to let his work wither away, pressed for and got a vote by the commission on an interim set of recommendations in February. The members tied 6:6 on a proposal to allow private networks, so it was dropped. But what did emerge was nevertheless quite an advance.

The Bundespost would establish a monopoly network called Telenetz and a separate services organisation, Teledienst, which would compete with the private sector in equipment and services. The division between Telenetz and Teledienst would be strict, to stop Teledienst from using the network at cut-price rates, if not free of charge.

Teledienst could have been out on its own against some of the most advanced providers of services in the world, because the interim report also recommended allowing anyone to offer equipment and services.

The Bundespost bureaucracy was quick to spot the threat. It is hard to say quite how pressure was applied, or who applied it, but even that plan was dropped.

The recommendations handed over to Chancellor Helmut Kohl by Professor Witte on Wednesday of last week are a far cry from what might have been. And by the time they have been massaged through Cabinet and parliament, they will no doubt be even meeker. Christian Schwarz-Schilling, the Posts Minister, said after receiving the report that the Government wanted to begin restructuring the telecoms market in 1989.

The key change in the recommendations is that Telenetz and Teledienst have been merged into something called Telekom, which would have a monopoly over network provision and the telephone service (that is telephone connection). So there would be no divide between the network provider and the so-called "competitive" service operation, and no watchdog other than the Posts Ministry.

One gloomy equipment producer in Bonn said this week: "The commission set out to discover what could be done (politically), but it ought to have recommended what should be done." Clearly the defenders of network monopoly have won a considerable victory and the remaining, apparently liberal, recommendations must have been easy to concede.

Anyone should be allowed to offer services or equipment, says the report, but Telekom must be allowed to compete at all levels. The present lengthy equipment approvals process—something foreign producers complain about bitterly — will be put into the hands of an "independent" body reporting to the Posts Ministry.

This display of faith in the ministry's ability suddenly to separate itself from the Bundespost (they are effectively the same thing) is repeated often, as when the report proposes that it should "oversee" the setting of telecoms tariffs by Telekom. The recommendations that Telekom separate itself from the postal service and that the letter post cease being subsidised by the telephone service could also be difficult to police.

The minority report, unexpected and most unwelcome to the Government, is scathing in its criticism. "If the network and telephone service remain, as recommended by the commission, in the monopoly, then 90 per cent of telecommunications, as measured by the proceeds of the Bundespost, is cut off from competition," it says.

It calls for the establishment of at least one network competitor, full competition in cellular radio networks and the establishment of a watchdog, similar to Britain's OFTEL, which would be part of the cartel authority in Berlin.

A solemn majority proposal that three years after restructuring the Bundespost, the Government should check that Telekom has been charging "competitive" tariffs, is not taken seriously in Bonn. The recommendation adds that if Bonn is not satisfied, then it could license another network. But provided by whom?

Mr Schwarz-Schilling, who believes the report tests the limit of what is politically possible, did hint that a way might be left open for private satellite or mobile telecoms networks, but he was vague.

Probably the best news for business customers (many of whom cheat anyway and already use the equipment they want without approval) is that the commission says the Bundespost's notorious volume tariffs on leased lines should be cut dramatically. The minister agrees. Under the present system a company can lease a line from the Bundespost but, after using it for just 80 hours a month, normal tariffs apply and the customer has to pay for the volume of traffic as well. On average, it costs roughly four times as much to operate a leased line in West Germany as in the UK or the US.

The Bonn coalition will not find it easy to implement even limited changes. With the FDP pushing for greater liberalisation than the report suggests, and the Bavarian Christian Social Union (CSU), led by Franz Josef Strauss, wary that the commission might have gone too far, Mr Kohl's (and Mr Schwarz-Schilling's) Christian Democrats (CDU) have some difficult decisions to make.

The unions will be fiercely opposed to any tampering with the present set-up. So will many CDU MPs who are just beginning to see an end to the Government's sour relationship with organised labour. The CDU, anyway, has no real stomach for reform of any kind and it already has an uncomfortable task ahead of it next year —trying to cut down the nation's DM 125bn health bill.

Mr Schwarz-Schilling will have to try to keep expectations down as parliament and Cabinet decide what to do. No-one, least of all the Posts Minister, is going to risk a career by pushing for reforms that might strike a wrong chord among traditional conservative voters. He will try to "bottle up what he calls the "emotional and irrational" American pressure for liberalisation with promises of change to come.

From the West German public he has little to fear because most seem to believe that the Bundespost is quite the most progressive, vital and friendly service in the world. That message, if little else, has been marketed well.

Stockholm, Sept 20

Sweden—a model or a warning?

ONE OF Europe's most formidable political machines, the Swedish social democratic party, is holding court in Stockholm this week at Folketshus, the People's House.

The social democrats have maintained a hold on power unprecedented in a modern western democracy. Alone or occasionally in coalitions they have led the government for 49 of the last 55 years. And if the latest opinion polls are anything to go by, they are unlikely to relinquish their grip at the coming general election in September next year.

In the process they have built a country that has served both as a model and a warning for foreign observers.

The social democrats' Sweden combines the biggest public sector of any western economy, the highest taxes, the narrowest wage differentials, and the most highly unionised workforce with one of the highest standards of living, one of the lowest rates of unemployment, and one of the most vigorous industrial sectors.

It is home to a clutch of multinational corporations unrivalled in a country of little more than eight million people, although at least one, Asea, is now seeking to slip out of Swedish control through its pioneering merger with Switzerland's Brown Boveri.

Fresh from a visit to the White House — to add to other sorties to Peking and Moscow — prime Minister Ingvar Carlsson will this week face his first conference as party chairman. He must prove he is a worthy successor to Olof Palme, Tage Erlander, Per Albin Hansson and Hjalmar Branting, the architects of modern Sweden.

He wil be aware that the social democrats like continuity and they are not used to failure.

Men and Matters

Carlsson travels light

The congress, which is taking place only a stone's throw from where Olof Palme was murdered by a still unidentified assassin in February last year, it is inevitably marked by the memory of the deaths in the last two years of some of the key figures of the Swedish labour movement Tage Erlander, Alva Myrdal, and Palme himself.

At least on paper Carlsson has far more impressive credentials to be a social democratic leader than the more patrician Palme. Carlsson is the son of a warehouseman father and textile worker mother from the west Sweden industrial town of Boraas.

As well as galvanising the rank and file, and smoothing over any cracks in the broad coalition of interests that make up the Swedish labour movement, Carlsson has the task this week of making sure that the leadership is not saddled with too many expensive and impossible commitments in the run-up to next year's election.

Among the 900 congress motions, he should have little trouble in heading off the traditional radical calls for widespread nationalisation, or the replacement of the monarchy with an elected head of state.

Trouble could be looming, however, on the vexed question of tax reform. The finance minister Kjell-Olof Feldt does not want to lower the overall tax burden, but he does want lower marginal taxes. Also the party leadership could be heading into trouble over the controversial question of arms exports, with demands from some quarters for a total ban.

Calls for a six-hour working day are also growing. A general cut is ruled out for the moment. But it could come for parents with young children.

In his opening speech Carlsson singled out as priority areas for legislative reform parents with small children, the schools and the elderly. It was hardly a call to the barricades.

"First we have to create the resources, then we can use them," he said cautiously.

Company town

Bofors, the Swedish arms manufacturer now at the centre of a series of embarrassing investigations into alleged bribery and smuggling of weapons to the Middle East, has good reason to remember Ingvar Bratt.

The suspicions had been around for some time but it was only when Bratt, aged 45, a former Bofors electronics engineer, decided to spill the beans that the investigations began in earnest.

Bratt became a new folk hero in Sweden but in Bofors' home town of Karlskoga the judgments have been less flattering.

Bratt has had to face the hatred of the Karlskoga citizenry. He is sometimes shunned in the street, or has had to put up with people shouting abuse at him, telling him he should be ashamed of himself for betraying Bofors, and warning him that he should leave the town.

He has received death threats and telephone calls from strangers who criticise him for breaking the company's vow of silence.

"Some old friends do not see me at all," he says, "they have cut me out of their lives." His few friends left at Bofors claim they have been put under observation as possible security risks.

The feeling in Karlskoga appears to be that the betrayal of one's company is far worse than connivance in breaking the law.

But then nearly every family is dependent—directly or indirectly—on Nobel Industries, the Bofors parent company.

Of the 34,000 inhabitants some 6,600 are employed at Nobel, 5,000 in the Bofors ordnance division.

"Our company was founded in 1646, it is a company where fathers and sons work generation after generation and they feel very deeply for it," says one employee.

Bratt says: "Only later did I realise that for the people of Karlskoga, the company is like a father, and the company comes before everything else, even the law."

The leaks have not stopped with Bratt, however. With impeccable timing on the eve of the Social Democrats congress, the peace movement (the Swedish Peace and Arbitration Association, which first publicised Bratt's claims) has come up with three new sources in the company.

Bratt is no longer alone.

Pure air

Commercial television is up for discussion again at the Swedish social democratic conference this week.

Sweden still has a ban on television advertising with just two state monopoly channels.

Even though a new opinion poll claims that seven out of ten Swedes are in favour of television advertising the ruling party is not expected to give way.

The two state channels are slow to modernise. The evening news has been put back by 30 minutes and lengthened. But in the frequent gaps between programmes the viewer is still subjected to birdsong, and scenes of seasonal landscapes.

Hell, says our man in Sweden, must be where the Germans are responsible for law and order, the British do the cooking, and the Swedes are in charge of television.

Observer

Marxist Angola is ready to join the IMF. But, says Paul Betts, problems abound


The war has cost Angola $12bn and 60,000 lives

A change of mood but not of prospects

A SMALL tablespoon of tomato sauce costs, after much haggling, 50 kwanzas in the crowded and dingy market of Soyo, north-west Angola—about $1.66 (£1) at the official exchange rate of 30 kwanzas to the dollar.

But the official currency is virtually worthless in Angola these days. The real currency consists of cans of beer, bottles of Coca-Cola, Scotch whisky and T-shirts which can be bartered. A bar of soap is worth a tin of tomato sauce, a can of beer one and a half kilos of bananas.

Soyo is better off than many other parts of Angola. The presence of large international oil groups like Elf-Aquitaine, Texaco and Conoco, active in the nearby offshore fields, means that the small town is well provided with imported western goods. Even the salaries of local workers are paid in produce rather than Kwanza. "We pay about 40 per cent of our local wages in products flown in from France and sold at our company store. The rest is in local currency but very often our Angolan employees don't even bother to draw the currency portion of their wages," says one of the Elf oil men stationed at Soyo.

The barter economy is only one telling manifestation of the economic woes of a country once described as the "Riviera of West Africa" with bountiful natural resources including oil and diamonds as well as coffee and other agricultural products.

Caught since its independence from Portugal 12 years ago in a long and draining civil war buttressed by the superpowers —the Soviets and Cubans back Angola's Marxist regime and the South Africans and Americans the Unita rebels of Mr Jonas Savimbi — Angola today is a country in tatters.

The war has destroyed much of the arable land and forced more than 600,000 of the country's 8m population to seek refuge in cities which have turned into refuse dumps. The French ambassador, for example, directs guests to his residence in Luanda by asking them to turn right at a big garbage pile.

Almost naked children rummage in the rubbish piles. At Luanda Airport, a dog which has lost all his hair scavenges for food. The shop windows of the city are bare except for a few dusty rolls of string, some nails, a few clothes and other bric-a-brac. Some have bare shelves.

A few months ago about 4,000 people died of cholera in Luanda. "It was a miracle that not more people died," says a western aid worker. Everywhere you see soldiers hobbling on one leg with crutches, victims of the mines of Unita.

Under the circumstances, it is not altogether surprising to find Angola in the throes of what appears to be a major reappraisal of its internal and external policies. "Despite its large oil revenues, or perhaps because of oil which has in many ways been a curse for the country by camouflaging the reality and enabling the government to finance the protracted war, the country has clearly reached the end of the road," says a Western businessman in Luanda's Meridien hotel.

Last month, President Jose Eduardo dos Santos struck out in a new direction, announcing his country's formal application for membership of the International Monetary Fund (IMF). Economic reforms have been put forward to encourage greater private enterprise and foreign investment, as well as to curb the country's chronic and inefficient bureaucracy. Angola, he said in August, had made errors which "now must be corrected."

Angola was the last major African state to enter the IMF fold and is now seeking to use that process to win a rescheduling of its $4bn external debt. At the same time, Angola plans to negotiate separately with France and the UK a rescheduling of its payment arreas.

There are other signs of changing attitudes towards the West. The government has renewed contacts with Washington and is actively seeking formal diplomatic recognition from the US. A second round of talks between Mr Chester Crocker, the US assistant secretary of state for African affairs, and the Luanda government took place earlier this month. Mr Alfonso van Durem M'Binda, the Angolan foreign minister, confirmed in an interview that there would be further talks with Washington over Angola's latest proposals to withdraw from southern Angola, over a two-year period, 20,000 of the 37,000 Cuban troops stationed in the country. In return, the Angolans want the Americans to stop supplying arms to Unita and to put pressure on South Africa to withdraw its forces from southern Angola and accelerate the process of independence of Namibia, which at present offers a safe haven for South African troops on Angola's border.

The Angolan Government has also made other overtures towards the West. Three weeks ago, it was instrumental in securing the release of two European prisoners in South Africa —a French aid worker and a Dutchman—as part of a major exchange of prisoners with Pretoria. Mr dos Santos is also about to set off on a tour of European capitals, starting with France, which is likely to be asked to sponsor Angola's IMF membership application. Mr dos Santos will also be seeking about $116m in emergency Western aid to help ease the near-famine.

A further sign of Angola's increasing reliance on western support is the government's efforts to diversify its arms supply sources beyond its Soviet allies. Mr Pedro Tonha Pedale, the defence minister, says that Angola is negotiating a series of defence-related contracts with French and Belgian companies.

Angola also continues to be heavily dependent on the West for its oil production. After the sharp fall in oil prices which badly shook the Angolan economy last year, oil revenues are expected to pick up again to the $2bn level this year, with annual production rising to around 400,000 barrels a day by the end of the year. Oil has produced many paradoxes for Angola; the country's biggest offshore oil field is operated by the American Chevron-Gulf group and protected by Cuban soldiers. Western oilmen barter Scotch or cognac for lobsters with the Soviet fishing fleet which combs more or less exclusively the rich Angolan waters.

But sentiment in Luanda is less pessimistic than it was. "Something important is clearly happening," says one Western diplomat stationed in the capital. "But it is difficult to say what the follow up will be and how long it will take or whether in six months' time we will again be back to square one."

At present there seems to be no solution to the 12-year stalemate in the war. Despite its formidable Soviet arsenal and the support of Soviet advisers and Cuban troops, Angola has failed to crack the Unita rebels.

Angolan army officers admit that as long as Unita continues to be actively backed by South Africa, Angola has little chance of ending the war. In what is a war without a front, Unita rebels have struck key targets throughout the vast country, sabotaging rail and road links, attacking the northern oil operations and the diamond mines.

After 12 years of this war, however, the country and the foreign powers implicated in Angola appear to have become increasingly tired and dejected by the seemingly unsolvable conflict. This, perhaps more than any other factor, appears to be prompting the current reappraisal of the Angolan situation both in Luanda as well as in Washington, Cuba and Moscow. The war has cost Angola $12bn and 60,000 deaths, not to mention the vast number of injured and crippled soldiers, 150,000 refugees and the more than 600,000 people who have fled the countryside for the cities.

Judging from the language in Luanda, however, there is no chance of the government agreeing to sit down at the same table with Mr Savimbi to try to work out a political solution to the conflict. Mr Savimbi remains the "fantoche" or the "traitor puppet" for the Marxist government. At the same time, many Angolans openly acknowledge that no major breakthrough in the conflict is likely to occur as long as the question of Namibian independence remains unresolved; some consider peace to be impossible as long as South Africa remains at war with itself over apartheid.

Words, beliefs and Lawson policies

By Samuel Brittan

IT IS characteristic of Nigel Lawson, the British Chancellor, that one of his most interesting speeches for a very long time—far more than those just dealing with Treasury nuts and bolts — was not publicised at all.

I refer to the introductory remarks he made a week ago at the beginning of a National Economic Development Office conference to discuss Keynes's General Theory after 51 years. These were not sent out as a Treasury Press Notice nor even as a NEDO one (although the Treasury will supply copies).

Nevertheless the speech does a great deal to explain the development of Mr Lawson's economic views. It is a speech —in which he admitted that he had not always been so preoccupied with inflation—which it is impossible to imagine Mrs Thatcher making, and should put right those who think of him as a Thatcher clone.

But I do have a more personal interest. For we both went through a remarkably similar, although not identical, development from an initial belief in Keynesian demand management to secure full employment, towards a more sceptical stance.

One difference is that Mr Lawson starts by saying that he was always more interested in the practical application of economics to policy: "My taste for theory was satisfied by philosophy." How much better it would have been for both subjects if the linguistic philosophers then in the ascendant had devoted themselves to analysing the conceptual confusions behind the controversies in the softer human sciences instead of the supposed mistakes of past philosophers.

His first macroeconomic reading was the 1944 Employment White Paper, which was a characteristically British establishment product. It was prescient about the dangers of rising prices and wages frustrating demand management policy, but gave no reason other than the national good why any worker or employer should not exercise his market power.

The turning point for Mr Lawson came when inflation began to take off in the late 1960s (after the sterling devaluation which he and I both advocated. He should prepare another speech on his evolving attitude to exchange rates). He also had a growing disenchantment with the idea (in some interpretations of the General Theory) of reducing real wages and curing unemployment by the back door of modest inflation. The position Mr Lawson ultimately reached was twofold. First that the "recipe for economic success" (a profoundly non-Conservative notion) was "the greatest practicable market freedom within an overall framework of firm financial discipline." He adds that precisely how that framework is best applied is "essentially a second order question," despite its practical importance.

The second order nature of the financial framework is absolutely right, but one which both financial market operators and would-be technocratic politicians find hard to understand. Nevertheless, the underlying idea that local expenditure should rise at a non-inflationary rate is far more important than whether, at particular times, it is more convenient to express it in the form of a target for one or other measure of the money supply, an exchange rate goal, nominal gross domestic product path or some other nominal objective.

The severance of the link between macroeconomic policy and growth and jobs is useful, but it goes too far

Personally I feel extremely unapologetic about shifting emphasis from one to another of these variables—in the light of fresh evidence (including psychological reactions) and financial change. Second order questions remain second order.

What I do find far more embarrassing is the trebling of unemployment in the last 10 years and the apparent vindication of the warning of the Keynesian establishment that the number out of work would reach the "low millions" if we try to tackle inflation by financial means alone without an incomes policy.

For that reason, unlike the Chancellor, I would hesitate to republish my earlier attacks on incomes policy. Both having an incomes policy and not having one have represented different sorts of failure.

It is the second prong of Mr Lawson's proclaimed present attitudes which requires re-thinking. That is the view he expressed in the 1984 Mais Lecture that "we must direct macroeconomic policy to the suppression of inflation and rely on microeconomic (or supply side) policy to provide the conditions conducive to improved economic performance in terms of growth and employment."

This severance of all connection between macroeconomic policy (for example, demand management and financial policy) and growth and jobs is a useful antidote to some of the attitudes of the 1960s and 1970s. But it goes much too far.

The financial framework of which the Chancellor spoke is meant to be an assurance against inadequate as well as excessive—and therefore inflationary—demand.

But, above all, the Mais Lecture slogan about relying on supply side policies to provide growth does not truly represent the Chancellor's own policies. Otherwise why should he have taken advantage of last year's fall in oil and commodity prices to sanction a sterling devaluation? If he had followed the Mais Lecture strictly, he should simply have used the opportunity to get to zero per cent inflation straight away instead of the 4 per cent we still have.

There is, moreover, no sign that Mr Lawson is looking for promotion from Chancellor to Secretary of State for Industry, where he would truly be in charge of the all important micro-policies. Nor have I heard that his economic adviser Sir Terence Burns wants to crown his Whitehall career by becoming chief economist of the Department of Employment which deals with the crucial labour market.

It may be that only West German economists can be heart and soul supply siders, as distinct from the pseudo-Reagan variety. More likely the language of the economic speeches still has to move from the arguments of the 1970s against the 1960s to the realities of the late 1980s and the remainder of the declining century.

Letters to the Editor

A strategy for electricity

From Mr N. Foulsham.

Sir, — John Kapp (September 15) wrongly suggests that the privatisation of individual power stations is a better financial proposition than the generating system as a whole. He does, however, for some unexplained reason exclude the nuclear stations. The late Sir Christopher Hinton said the only difference between conventional and nuclear was that the nuclear cost too much. On the basis of this authority there is no need for special treatment for nuclear stations.

Unfortunately the ideas proposed do not take into account the existing situation in the UK where the major part of the demand is supplied by stations with generating sets of 500Mw and above and these have been located in areas close to the fuel source. The basis for the development of the power stations and the 275Kv and 400Kv transmission system was that it was cheaper to transmit energy in the form of high voltage electricity than to transport the fuel by rail.

The generating and transmission system forms an integral part for the efficient supply of electricity to the various users, the control of which is in the hands of load despatchers. The load despatcher has the task to ensure a reliable supply for 24 hours every day of the year, using stations in order of cost merit. This also includes the use of the cross channel cable supplies and the provision of running spare capacity to allow for loss of generating plant and load estimate errors.

Technical consideration of the above will show that the various proposals by John Kapp have no practical application to the present electricity supply system in the UK even if the claim that "electricity is 20 per cent dearer than it should be" were substantiated.

If the sale of individual stations were viable then the inefficient system of the Central Electricity Board (the controlling body before nationalisation) would have to be reintroduced where selected stations only would be part of the grid system.

The other proposals that the waste heat from the existing stations could be used has no practical base, nor has the idea that existing boilers designed for coal or oil could burn refuse. The use of stations for district heating and refuse disposal requires a co-ordinated plan for whole areas where factories can use process steam and houses can use the waste heat. As this type of socialist planning is not part of the Government's thinking the dream of highly efficient energy production will always remain a dream. The existing redundant stations sites are more suited to co-generation but the case for additional generating capacity to be met in such a way is not in the plans of the generating board nor of the plant manufacturers.

Let us hope that even in the pursuit of political dogma Cecil Parkinson is prepared to listen to the many professional engineers who have the knowledge and experience to ensure that the UK will continue to have the same economical and reliable system as it has had from the nationalised industry.

Furthermore let us all hope that a privatised electricity supply industry does not become as inefficient as the privatised British Telecom.

Norman Foulsham,
13 Lovelace Drive,
Pyrford, Woking,
Surrey.

Water companies' investors

From Mr S. Hill

Sir,—In your article of September 16 you refer to the acquisition of shares in some of the statutory water companies, by French and other interests.

As a director to one such company and an adviser to many others, I consider this development is to be deplored. These interests will seek representation on the board of directors as they have in the case of Rickmansworth, yet their relationship will be that of contractors. Hitherto the directors of the companies have acted scrupulously in the interests of their consumers and their limited dividend shareholders, refusing to be influenced by special interests.

Let them buy shares if they wish to overpay for them, but not have representation as directors.

Stanley Wm Hill,
35c, Tranquil Vale, SE3.

This quaint concession

From Mr M. Freegard

Sir,—You can seldom have published a more perverse letter than that from Mr J. Griffith (September 7) about the exemption from CGT of gains realised from the disposal of (not, as Mr Griffith would have it, "of increases in the value of") one's "principal residence."

Mr Griffith cites no evidence for his view that this exemption motivates young housebuyers to acquire more costly homes than they would otherwise aspire to; if (as is doubtless true) elderly homeowners often stay on in houses bigger than they need, common sense would surely suggest that they would be less, not more, likely to "trade down" if to do so would land them with a substantial tax bill. Those who acquire properties as a "hedge against inflation" and leave them empty are unlikely to be claiming these as their "principal residence." As for job mobility, while house price differentials are undoubtedly a major problem, repeal of this tax exemption would be more likely to exacerbate it than resolve it; how could it be helpful, let alone equitable, for "virtuous citizens," whose employment requires them to move from a low-priced area to a high-priced one (or, for that matter, from a high-priced area to another) to be required to pay tax on a wholly illusory gain (even granted the RPI-linked inflation allowance to which they would be entitled)?

The spires of Mr Griffith's Oxford College must be dreaming indeed for him to think that the problems to which he refers could be solved as simply as he suggests.

M. J. Freegard,
15 Highgate Close,
Highgate, N6.

Capitalism thinly spread

From Mr I. Walker

Sir,—Your leader of September 15, "Capitalism thinly spread," claims that popular capitalism will not take root until fed with "fiscal parity" with pension funds. The alternative you claim is to scrap pension fund relief. The provision of tax relief in respect of the promotion of private share ownership should, however, be viewed independently of pensions.

Pension fund tax relief is temporary. Contributions into a fund are not normally taxed and accumulations within the fund are generally tax-free but these concessions are given on the understanding that the funds will eventually be paid as pensions and these will be taxed as income. Thus tax is merely deferred until the employee receives payment of pension.

There is, however, the tax-free cash sum at retirement. This anomaly means that some of the pension fund can escape tax entirely. The continued existence and inventive use of this facility in financing house purchase serves to underline the often unforeseen consequences of tax concessions: and how difficult they can be to alter once they have become established.

The effect of tax relief is often to distort the pattern of investment and inhibit active management. Were it not for tax concessions would employees "choose to put a solitary egg in a single basket" by subscribing to share ownership schemes? The prospect of the recovery of tax can even be sufficient reward in itself—witness the flurry of the early asset-backed business expansion schemes.

People will buy and sell shares if they can make a profit. It is wrong to castigate former holders of British Telecom for taking their profits rather than "acquiring a deeper sense of involvement in the British economy." You also raise the question of the political price to be paid should the market downturn. Investors have and will continue to have the unfettered option to sell—and buy back another day!

It is also misguided to consider the provison of tax relief as an offset to high costs of dealing. We must have confidence in the market responding to the new circumstances. The Government's role is to ensure that new firms can enter the market and meet the demands of the new small investor both as regards advice and dealing.

Iain B. Walker.
40, Ennismore Gardens, SW7.

Imperial measure

From Mr R. Farrell

Sir, — Mr Jeremy Woolf's letter (September 17) praising Imperial measures seems to show that he only sees what he wants to see. The Imperial system of measurements is old-fashioned, outdated, illogical and very complicated to use. I think that resistance to adopting the more simple, rational, elegant and widely used metric system goes some way to explain that in many industrial fields the Anglo-Saxon world no longer competes with the metrically orientated Europe and Japan. There are many reasons for our relative technological decline and one of them is our resistance to change.

Britain is now in the worst of two worlds—neither Imperial nor metric. Most education is metric, half the food is metric, half Imperial (thanks to Mrs Thatcher's objections to proposed changes in the Weights and Measures Regulations in 1978) and most people are against metrication because it means change and its advantages and simplicity have never been explained.

Nearly 70 per cent of our trade is with Continental Europe and only 17 per cent with the US. Reviving some form of governmental commitment to going metric at least by the end of this century may herald the dawning of a new age of change.

R. J. M. Farrell.
Farrar Machinery,
Balmoral Road,
Altrincham, Cheshire.

FINANCIAL TIMES

Monday September 21 1987

Gordon Cramb on
Wall Street

Amex looks abroad for fresh niches

THE AMERICAN Stock Exchange, left behind in the 1970s as a number two which didn't try harder, is aiming for new ways to regain ground.

Long overtaken in listings and volume by the Nasdaq over-the-counter market, the Amex is seeking what Mr Kenneth Leibler, its 37-year-old president, acknowledges are niches in the securities business.

Last month, for example, it linked with the European Options Exchange in Amsterdam to launch options there in its Major Market Index known as XMI, a 20-component blue chip indicator based closely on the Dow Jones industrial average. This is being promoted as a first opportunity for trading in US equity options before the New York market opens each day.

XMI options trading started on the Amex some 4½ years ago and has grown to about 75,000 contracts a day. Equity options form one of the few areas in which the Amex is able to claim some degree of market leadership. It has roughly a third of all US business in stock options, while among the scattering of both big board and over-the-counter stocks where options are traded on at least two markets, the Amex accounts for more than 90 per cent of the action.

According to Mr Leibler, this does not mean that it is slowly losing its identity as a market in ordinary shares. 'We're quite balanced in terms of our commitment to options and equities,' he insists.

The Amex has had some success in gaining listings this year as new issue activity in the US gathers pace. It has won 122 new arrivals so far, an annual rate not seen on the exchange since 1972, the year before the Nasdaq started. By no means all companies are leapfrogging from over-the-counter trading to the New York Stock Exchange, as was once feared.

NYSE officials point out, however, that the Amex has again this year lost a handful of its most actively traded issues - notably Wickes, the building products retailer which emerged from Chapter 11 in 1985 and spent a bare two years on the Amex before moving up.

For further niches, Mr Leibler is once more looking abroad. He has been talking to the Securities & Exchange Commission - and to Mr Gary Klesch's Quadrex Securities in London - about setting up a regulated institutional market for shares in foreign companies which do not, or do not wish to, conform with SEC prospectus requirements.

When a company such as Fiat makes a secondary offering, he says, US institutions are precluded from direct participation. In some cases this leads to backdoor private placements, in others just frustration. The Amex's proposed market would allow securities houses, pension funds and insurance companies to subscribe for Euro-equity issues and trade the shares among themselves.

Although its membership catchment area would extend to only the few hundred largest institutions in the country, the SEC has been wary, particularly of the danger of leakage by these securities into the broader market. Still, Mr Leibler hopes for approval at least in principle by the end of the year.

The Amex's other main foreign venture has been the creation 2½ years ago of an electronic link to the Toronto Stock Exchange. This allows automated trading in about 40 Canadian stocks which are listed in both centres, with an inbuilt currency conversion designed to ensure settlement at the best North American price. Mr Leibler says this may be extended to offer Amex-quoted stocks in the Toronto market.

The system as it exists has, however, proved unattractive to Canada's half-dozen big broking firms. 'We've never done a trade on it,' says Mr Tom Green, in charge of Canadian equity trading at Burns Fry. 'It's not a liquid situation.' While preferring to deal directly, he says the link may have some benefits for smaller firms without a New York presence of their own.

The Amex has long been home in the US for Canadian mining and energy stocks, and also for American depositary receipts in a few British companies which could certainly move to the NYSE if they chose.

BAT Industries has had an Amex quotation ever since Mr A. C. (Tom) Long, its finance director, can remember. 'We haven't seen reason to change,' he says. 'We've looked at it closely a number of times, but we're not subject to all the filing requirements in the US and we don't intend to issue shares.' The Amex even offers one modest advantage: BAT regularly turns up on the market's daily list of active stocks. 'One has to see that in the light of the much smaller volumes on the Amex, but it's not a bad thing to keep one's name in view.'

US to aim for 'very large' cuts in strategic weapons

BY STEWART FLEMING IN WASHINGTON

THE REAGAN Administration's top arms control priority is to secure "very large reductions" in long-range strategic nuclear weapons now that a US-Soviet agreement on the global elimination of intermediate-range nuclear missiles is about to be reached, Mr George Shultz, US Secretary of State, said yesterday.

"The most important thing to do, I think, and the Soviets have said they think so too, is to bring about very large reductions - 50 per cent cuts - in strategic arms. That is what we are going to push on now," Mr Shultz said in a television interview.

But even some Administration officials are publicly questioning whether the superpowers can achieve this goal. Others strongly believe it is not a desirable goal if its achievement requires the US to compromise on the development of the so-called Star Wars Strategic Defence Initiative.

In his weekly radio address, President Ronald Reagan said on Saturday that he expected to sign a treaty on intermediate-range forces (INF) at a summit with Mr Mikhail Gorbachev, the Soviet leader, in the autumn. Agreement in principle on a INF treaty was announced on Friday following three days of talks in Washington between Mr Shultz and Mr Eduard Shevardnadze, the Soviet Foreign Minister.

Mr Reagan, emphasising the divisions with Moscow on strategic weapons and reassuring his conservative supporters, insisted, however: "I will not sacrifice our SDI programme."

The Soviet Union has linked progress on strategic weapons to acceptance by the US of restraints on the evolution of the SDI programme.

Mr Shultz confirmed yesterday that the US believes Moscow softened its position last week on this linkage between strategic weapons and SDI.

"They put forward two things in our discussions this past week which represented some shifting of their view," he said.

One was on the question of what the US would be permitted to do within the terms of the 1972 Anti-Ballistic Missile treaty which covers space defences. The other, he said, was the suggestion albeit vague that both sides agree to abide by the traditional interpretation of the treaty during the period they agree to abide by it.

Reaction to the Administrations announcement of what is widely seen as Mr Reagan's first clear-cut foreign policy success has been predictably mixed although on one thing there is widespread agreement, namely that a popular arms control accord will help to revive Mr Reagan's political prestige.

The Administration's decision to emphasise strategic arms as the next goal seems designed in part to capitalise on this by providing the President with an arms control agenda for a period after the INF accord is signed.

"This probably slows down the process of lame duckism," remarked Senator Carl Levin, a Michigan Democrat, referring to the erosion of authority a president suffers as he nears the end of his term.

There are differing views on the domestic, political and security implications of last week's moves, particularly on the question of strategic arms.

The Democrats will find it harder to attack Mr Reagan as a man who cannot deal with Moscow, while Mr Reagan can claim success for his tough negotiating stance with the Soviet Union.

●In London yesterday, Sir Geoffrey Howe, the Foreign Secretary, stressed British and French determination to continue to maintain and modernise their independent nuclear deterrents, despite the US-Soviet accord.

Eurotunnel consortium criticises contractors over delays

By Andrew Taylor in London

EUROTUNNEL, the Anglo-French Channel tunnel consortium, which plans a crucial £750m ($1.2bn) international share issue in November, has strongly criticised the project's contractors for delays, inefficiency and failure to comply with contract obligations.

The consortium's complaints emerged in a stiffly-worded letter sent to the contractors by Mr Pierre Durand-Rival, Eurotunnel's French managing director, at the end of last month.

Mr Durand-Rival is to take over from Mr Jean-Loup Dherse, Eurotunnel's chief executive, who next month joins the Vatican as executive secretary to the Synod of Bishops in Rome.

Mr Durand-Rival's letter was sent to Mr Andrew McDowall, chairman of Transmanche Link (TML), a consortium of five British and five French contractors appointed last year to build the tunnel.

It complains of slippage in the construction timetable, delays in producing rolling stock designs, a total lack of financial information and a lack of proper cost procedures.

'Orders are placed and approvals for design are requested without any reference to any budget,' says the letter.

The publication of its contents is embarrassing to Eurotunnel, which is due to complete its funding arrangements in two months' time.

Mr Alastair Morton, the British joint chairman of Eurotunnel, was last night due to fly to New York as part of the marketing campaign for the autumn share issue.

The consortium is understood to have informed the British authorities that it wants the issue to take place on or around November 18. The outcome is crucial to the consortium's plans to raise almost £6bn from loans, standby credits and the sale of shares.

Underwriting agreements for £5bn of loans and credits, concluded last month with 50 international banks, will not be operable if the issue fails.

Britain's share of the offer is likely to be about £300m. The consortium expects private investors to play an important role in the British issue. It will be the first time that members of the public will have had an opportunity to buy shares in the project.

THE LEX COLUMN

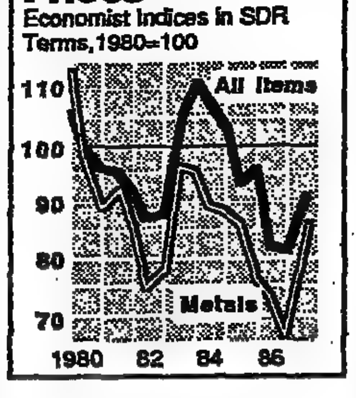
Turning lead into gold

Investors in the world's commodity markets who sold in May and went away must be feeling pretty sorry for themselves. The performance of many commodity prices over the past few months has been breathtaking. This could just be a temporary upwards spike in prices following the belated realisation that the commodity slump has come to an end, but it is being monitored with unusual concern by the more bearish traders in the international bond markets.

While fears about inflation have proved premature to date, there is a growing feeling that the behaviour of the commodity markets may be signalling some investor unease with the level of the world's major stock markets. Trading volumes on the London Metal Exchange have risen sharply over the past year, and the tightness in the markets has resulted in the prolonged and unusual phenomenon known as "backwardation," where spot prices are higher than forward prices (in more normal times the latter should be higher, reflecting the cost of financing). Indeed, the only major area of the commodity business which has failed to jump on the bandwagon is the food sector, which continues to be overshadowed by huge agricultural surpluses.

It is clear that consumption of some raw materials, in particular copper, has risen much faster than expected given the sluggish growth in industrial production in the OECD countries. It is also true that the stock consumption ratios of several key commodities, notably aluminium and copper, are at their lowest level for many years. This has been blamed on a combination of high real interest rates and the increasingly sophisticated stock control measures of major customers which allows them to live comfortably with much lower stock levels. This is changing, though, and the sight of commodity prices roaring ahead is forcing an increasing number of customers to rethink their stock strategy, thereby in turn increasing demand. The final factor is that the scale of the cuts in production capacity during the savage recession of the 1980s may have been underestimated. Admittedly, there is a substantial amount of new gold and copper mining capacity scheduled to come on stream over the next few years, but in sectors such as aluminium this is not the case. Meanwhile, there are signs that organised labour, in particular in Canada and Australia, is becoming increasingly resistant to further cost-cutting measures. Most of

Commodity Prices
Economist indices in SDR Terms, 1980=100



he fat has probably been cut out of the world mining industry by now.

Even so, it would be dangerous to assume from the above that commodity prices are soon going to match the performance of equity prices over the past five years. The recent price surge is probably no more than part of a long overdue correction, and in the short-term at least, the undoubted change in market sentiment may be causing speculative excesses. It is too early to say that the commodity markets are signalling the long-feared switch away from financial assets; and in terms of general inflation it is wage costs, rather than raw materials, which really need watching.

Emerging markets

Every form of exotic stock market investment has its scarred veterans, ready to pass on chilling tales of disappearing value. Third World and emerging market funds are no exception. And last month's near-30 per cent slump in the Philippines market might stand as a warning against investment fads. But for every such correction there has usually been a compensating surge: Mexico, for example, has risen 538 per cent in peso terms (290 per cent in dollars) since the beginning of 1987. And the International Finance Corporation calculates that three of the leading emerging markets - India, Korea and Chile - have outperformed the international indices since 1975, with as many as eight managing it before the debt crisis.

Following the latest wave of outperformance by several emerging markets, and mindful of the dangers of single country concentration, three global emerging market funds have recently been established by Templeton, Gartmore and Municipal Life Assurance. Gartmore's has 90 holdings in 22 countries - more diverse than the average international fund - and was thus able to ride its Philippines exposure. But although the fund has grown by 36 per cent in seven months it is too early to form a judgment on the risk/reward balance in these general funds.

Many of the old difficulties are easing but have not disappeared: low liquidity, poor information, currency and political risk, and the frequent need to pass through two sets of fund managers. Similarly, the reasons that have always attracted pioneering investors to seek out value in faraway places are stronger than ever thanks to spiralling valuations in first world markets. In the same way that small companies often outperform larger ones, so the growth potential of smaller markets tends to be above average. Some of the South-East Asian Newly Industrialising Countries have certainly rewarded their supporters generously. Several have the added advantage of being inefficient and under-researched markets, providing an edge to professional investors with instant access to world statistics.

Yet some things clearly have changed over the past few years which are helping to contain traditional risks and make equity investment in the developing world less of a venture capital punt. There has been a sea-change in attitudes to the private sector; the shift in manufacturing to low labour cost economies is no passing fad; and neither is the drying up of bank lending, which has forced countries to look for other forms of capital.

The new confidence is exemplified by the Thornton debt-equity swap fund in the Philippines, which transfers risk from a banking sector, which should never have taken it on, to equity investors who are expected to shoulder higher risks and can, in any case, spread them wider. Although there have been difficulties launching this small (£20m) fund, others are busily following. It will not solve the problems of developing countries, but in the Philippines' case the banks have been happy enough to sell their sovereign debt at a 35 per cent discount to dollar value. This debt is then converted into the peso at the full value of the original loan and subsequently invested in domestic equities. The only snag is the central bank takes a 5 per cent cut, a commission that might turn even western investment bankers a little green.

Suez sets tight limit on foreign tranche of privatisation offer

BY GEORGE GRAHAM IN PARIS

COMPAGNIE FINANCIERE de Suez, the French banking and investment group which is to be privatised next month, is expected to limit the international tranche of its share offering to only about FFr2bn ($330m), well short of potential demand from foreign investors.

The group has already received commitments from a number of overseas fund managers promising to hold on to any shares they receive for at least six months, and it hopes to be able to place the whole international offering in stable hands.

Earlier French privatisations, focused on domestic small shareholders, have also left overseas demand largely unsatisfied, but in some cases foreign fund managers have quickly sold their shares back into the French market.

Paris equity dealers indicated last week, for example, that they were now seeing a flowback of shares in Paribas, the investment banking group which was privatised in January but which last month carried out a large capital increase aimed mainly at international investors.

The Suez group is valued at FFr22bn to FFr24bn, and a simultaneous capital increase of between 5 and 15 per cent - still to be decided - is also planned.

France's privatisation law limits the international offering to a maximum of 20 per cent, but in the case of Suez the tranche must be further reduced.

The hard core of long-term shareholders selected ahead of the public offering by the Finance Ministry will be larger than usual, about 30 per cent of Suez's capital, and a third of this is expected to be allotted to foreign groups.

Foreigners also hold an estimated 10 to 20 per cent of Suez's non-voting preferred certificates of investment, further reducing the amount of equity available for the general international tranche.

Banque Indosuez, the group's main banking arm, is lead manager to the international offering. Co-lead managers in five geographical zones - Credit Suisse in Switzerland, Deutsche Bank in West Germany, Warburg in the UK, Salomon in the US and Daiwa in Japan - will place about 55 per cent of the international offering.

Suez is the first French privatisation to have a private placing in Japan.

The rest of the world, an important area for Suez because of its Middle Eastern links, but also including Scandinavia and the Benelux countries, will receive about 45 per cent, co-led by Banque Nationale de Paris, which is also adviser to the French Government.

Mr Jean-Marie Laporte, head of international equities at Indosuez, said he expected standard lines to be of FFr5m to FFr10m, or less for the predominantly private investors in Switzerland and Benelux.

Participating banks can be called on for up to 30 per cent of the amount they have underwritten in the first month, up to 20 per cent in the next two months and up to 10 per cent for another three months.

Pearson breaks with Warburg

BY MARTIN DICKSON IN LONDON

PEARSON, the diversified UK information, banking and industrial group, has parted company with S.G. Warburg, the merchant bank, which it had lined up to act as financial adviser in the event of a bid for the group.

Pearson, which owns the Financial Times, took the initiative to end the relationship with Warburg's corporate finance department during the summer.

Warburg's securities trading side acted last April for Mr Carlo de Benedetti, the Italian businessman, when he acquired a 4.9 per cent stake in Pearson from Hutchison Whampoa, the Hong Kong trading group.

Warburg holds a 1.5 per cent stake in Cofide, Mr de Benedetti's Italian master holding company, which has a 1.7 per cent stake in Warburg.

For nearly three weeks after the stake purchase, Mr de Benedetti kept it secret that he was the buyer - which caused embarrassment at Pearson. At the company's annual meeting, Lord Blakenham, the chairman, was unable to tell shareholders who was the new investor.

Pearson has since welcomed Mr de Benedetti as a shareholder, but has evidently decided that, because of Warburg's dual role in the affair, it would prefer to be with another merchant bank.

Mr James Joll, Pearson's finance director, yesterday confirmed that there had been a "parting of the ways with Warburg and we are in the process of appointing a new financial adviser" and reiterated that the group was "very happy with Mr de Benedetti as an investor."

Peugeot chief threatens to resign

Continued from Page 1

Renault last month, it is now understood to be reconsidering the details of the operation in the face of the Peugeot opposition. Indeed, the Government itself appears split with Mr Edouard Balladur, the Finance Economy Minister, adopting a more cautious and hesitant approach to the Renault recapitalisation and Mr Alain Madelin, the Industry Minister, spearheading the Renault plan.

Mr Calvet is clearly playing a skilful game to defend the interests of his group. Indeed, Mr Calvet is understood to have suggested an alternative to the Government to make the eventual Renault recapitalisation more equitable for Peugeot. He has suggested that if the Government goes ahead with its plans, it should consider compensation for Peugeot by shedding to the private car group Renault's 50 per cent stake in La Francaise de Mecanique, an important joint engine venture in northern France between Renault and Peugeot.

If, however, Mr Calvet carries out his threat to resign he would not only provoke profound embarrassment to the Government but also pose a major new industrial headache in an election year. Mr Calvet has been the principal architect of Peugeot's spectacular recovery during the past few years. His departure would represent a huge blow for the country's biggest private enterprise without any obvious candidate to replace him.

Poland urged to 'quicken reforms'

Continued from Page 1

rise by 6.5 per cent a year in value and consequently interest obligations on Poland's current $35.3bn foreign debt would be fully covered by 1991, two years earlier than projected.

The IMF, which Poland has also joined, has been telling the Poles they should be aiming for a surplus by 1989. The World Bank, while generally praising the 1991 target for balancing the current account, argues that it is accompanied by growth and consumption rates which are not over austere and that "faster external adjustment" is conceivable.

The report also recognises that despite repeated reschedulings and current failure to meet interest obligations in full, Poland has, between 1982 and 1986, been devoting on average 36 per cent of export earnings to debt service.

The reports adds that in this period all interest owed to banks has been paid in full and compliments the reform programme as being the most progressive in Eastern Europe, but asserts:

However, the World Bank criticises past and present investment policies as having paid insufficient attention "to economic and financial criteria."

Poland's nuclear power programme is also implicitly criticised - the report hints that projected capacity of the country's first nuclear power station at Zarnowiec, due to start operation in 1991, should be halved.

Spending on the rural infrastructure should also be reduced and, in general, the report argues that costs of food production are too high and implies a tougher incomes policy towards farmers aimed at squeezing inefficient producers.

Prices need to be liberalised and "survival of central allocation casts doubt on the credibility of the reform." However, freeing prices must be accompanied by moves to introduce competition into the economy, as well as stable fiscal policies towards companies and monetary measures such as an increase in interest rates.

World Weather

		°C	°F
Ajaccio	S	27	81
Algiers	S	37	99
Amsterdam	S	20	68
Athens	S	28	82
Bahrain	S	37	99
Bangkok	C	29	84
Barcelona	S	27	81
Beirut	-	-	-
Belfast	R	15	59
Belgrade	S	32	90
Berlin	C	12	54
Biarritz	S	28	82
Bombay	F	32	90
Bordeaux	S	27	81
Brussels	S	23	73
Budapest	S	27	81
B. Aires	S	17	62
Cairo	S	33	91
Cape Town	R	12	54
Caracas	-	-	-
Casablanca	-	-	-
Chicago	C	12	54
Cologne	S	22	72
Copenhagen	F	13	55
Corfu	S	33	91
Dallas	S	16	61
Dublin	C	17	63
Dubrovnik	S	28	82
Edinburgh	C	12	54
Faro	C	24	75
Florence	S	26	79
Frankfurt	F	24	75
Funchal	S	26	79
Geneva	S	27	81
Gibraltar	R	24	75
Glasgow	C	12	54
Guernsey	C	16	61
Helsinki	C	9	48
H. Kong	C	28	82
Innsbruck	C	21	70
Inverness	C	12	54
Islamabad	-	-	-
Istanbul	S	24	75
Jakarta	-	-	-
Jersey	C	18	64
Jo'burg	S	20	68
Lima	-	-	-
Lisbon	F	26	79
London	S	22	72
Los Angeles	C	17	63
Luxembourg	S	23	73
Madrid	S	28	82
Majorca	S	32	90
Malaga	F	29	84
Malta	S	34	93
Manchester	F	19	66
Manila	-	-	-
Melbourne	-	-	-
Mexico City	-	-	-
Miami	S	26	79
Milan	S	26	79
Montreal	R	12	54
Moscow	F	9	48
Munich	S	26	79
Nairobi	F	26	79
Naples	S	28	82
Nassau	-	-	-
New Delhi	S	35	95
New York	C	14	57
Nice	S	26	79
Nicosia	-	-	-
Oporto	S	24	75
Oslo	S	15	59
Paris	S	27	81
Peking	-	-	-
Prague	F	22	72
Reykjavik	R	8	46
Rhodes	S	29	84
Rio de Jo	-	-	-
Rome	S	27	81
Salzburg	F	27	81
San Francisco	S	12	54
Seoul	S	27	81
Singapore	F	32	90
Stockholm	C	11	52
Strasbourg	S	28	82
Sydney	-	-	-
Taipei	-	-	-
Tangier	-	-	-
Tel Aviv	S	30	86
Tenerife	S	27	81
Tokyo	F	23	73
Toronto	Fg	15	59
Tunis	S	34	93
Valencia	S	29	84
Venice	F	24	75
Vienna	S	28	82
Warsaw	C	9	48
Washington	C	17	63
Zurich	S	26	79

Readings at mid-day yesterday
C-Cloudy D-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sun Sl-Sleet Sn-Snow T-Thunder

EC steel industry

Continued from Page 1

to half a dozen big integrated mills - that forms the largest single part of the problem.

Today's package aims to make it easier to tackle that key 10m tonnes in two ways: giving producers better prices for sales of unused quotas and providing EC cash to soften the impact.

Steel producers can already sell quotas, but the Commission is proposing to top up prices to make it more attractive to shut plants. Funding for the scheme would come from a highly controversial production levy charged on the final 30 per cent of all steelmakers' output covered by quotas.

Brussels estimates that the levy would pull in about Ecu600m ($690m), roughly 70 per cent of which would cover the closure incentives, with the rest to go on social spending.

The idea has drawn outrage from governments which feel their steel industries have already done enough restructuring, such as Germany, the UK and the Netherlands. They do not see why they should pay the less efficient to do something they should have tackled years ago.

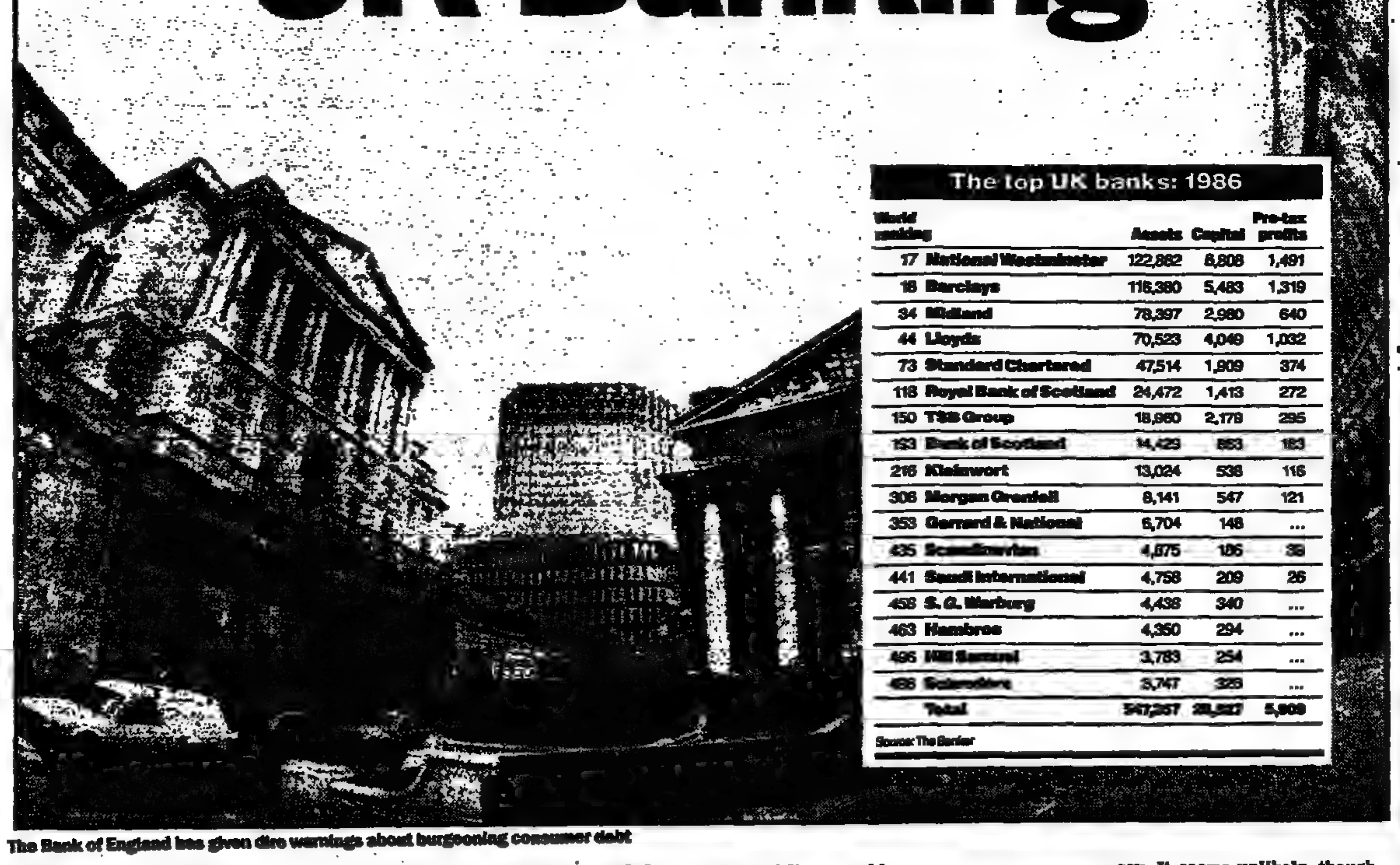
The Commission has tried to sweeten the package with an Ecu300m job creation scheme, known as Resider, to come from EC regional development funds.

SECTION III

FINANCIAL TIMES
SURVEY

The stresses of Big Bang are apparent and the picture may at first look grim. But Banking Editor **David Lascelles** diagnoses many of the symptoms as the encouraging signs of adjustment to an invigorated climate by an industry that is fitter than it has been for decades.

UK Banking



The Bank of England has given dire warnings about burgeoning consumer debt

The top UK banks: 1986

World ranking		Assets	Capital	Pre-tax profits
17	National Westminster	122,862	8,808	1,491
18	Barclays	116,380	5,483	1,319
34	Midland	78,397	2,980	640
44	Lloyds	70,523	4,049	1,032
73	Standard Chartered	47,514	1,909	374
118	Royal Bank of Scotland	24,472	1,413	272
150	TSB Group	18,960	2,179	295
193	Bank of Scotland	14,429	853	183
216	Kleinwort	13,024	538	116
306	Morgan Grenfell	8,141	547	121
353	Gerrard & National	6,704	148	...
435	Scandinavian	4,875	186	39
441	Saudi International	4,758	209	26
458	S. G. Warburg	4,438	340	...
463	Hambros	4,350	294	...
496	Hill Samuel	3,783	254	...
498	Schroders	3,747	328	...
	Total	547,357	30,527	5,908

Source: The Banker

CONTENTS

Through the pain barrier

ON THE *face of it,* UK *banking* seems to be going through a pretty rough patch. Three of the Big Four clearing banks have just reported the first losses ever recorded by the top names of a business where the mere mention of red ink can cause severe nervous disorders.

The stresses of last year's Big Bang are showing through: heavy costs, upheavals, uncertainty, intense competition - all are taking their toll on managements and financial accounts. The Guinness affair earlier this year also raised doubts about the probity of some quarters of the merchant banking business.

Those who believe in the sanctity of British banking were disturbed this summer when a clearing bank (Clydesdale) was for the first time bought by foreigners (National Australia Bank), and a leading merchant bank (Hill Samuel) almost became the first accepting house to pass into foreign hands (*Union Bank of Switzerland*). Add in a monopoly inquiry into the banks' credit card charging practices, and dire warnings from the *Bank of England about* burgeoning consumer debt, and the picture could hardly look more grim.

Yet the truth of it is that the UK *banking industry is* probably *in fitter shape today than it* has been at any time for decades. *And this is a view with* which the majority of bank executives would concur.

This apparent contradiction is best explained by the fact that many of the symptoms which point to sickness and stress in banking are, in fact, encouraging signs of the profound adjustment which banks are making to a much invigorated environment. Rather like people jogging to get fit, there is a lot of pain on the way, and there may even be a heart attack. But the result should be better health.

The poor interim results that hit the headlines in July and August were typical of this. The bulk of the losses reported by the clearers were due to the heavy provisions (totalling nearly £3.5bn) which UK banks were forced to make against their Third World loans in order to match similar action by the Americans. It was a belated move, which was criticised as *inadequate in some quarters.* But it means that UK banks are now in a position to absorb losses of 25-30 per cent of the value *of those loans at a time* when the whole debt issue has taken a turn for the worse. Far from undermining confidence *in UK banks, the resulting* losses totalling £1.6bn were viewed by the City as highly positive. Fortunately for the UK banks, the Americans had shown the way.

Another factor in the poor results was the cost of Big Bang. Nearly 12 months after that great event, a clearer picture of its impact is just beginning to emerge. So far as the clearing banks are concerned, it has been an enormously expensive affair. The cost of acquiring stock exchange firms and setting up their new investment banking operations has been of the order of £300m, and the results are widely divergent.

Barclays, which plunged *in* the deep end by buying two large firms and welding them together into Barclays de Zoete Wedd, *seems to have come off* best. The combination of BZW's large size and the relatively smooth merger of its parts has produced a *major force in the* markets, and enabled it to win some good corporate clients. After losing £19m in the second half of *last year*, BZW earned £25m in the first six months of this year. But big outlays still lie ahead as BZW now moves into its phase of overseas expansion.

NatWest, which took a more modest route, has also come up *with more modest results. County* NatWest, its new investment bank, has had internal merger problems, and earned only £2m *in the first half of this year after* losing £39m in the second half of last. But County has large ambitions which it is likely to realise *over time.*

The worst experiences have been at Lloyds and Midland. Lloyds, always half-hearted about Big Bang, largely withdrew from the securities markets in mid-summer after racking up losses of £32m; Midland's decision to pull out of the equity markets (it remains in gilts) led to the partial disintegration of its equity subsidiary, and accompanied a 75 *per cent fall in* investment banking earnings.

But while both Lloyds and Midland confirmed the widespread *prejudice against* the ability of clearing banks to manage a successful securities business, Big Bang has forced all the banks to think hard about investment banking, and adapt to growing demand for that type of financial service.

The merchant banks, as might be expected, have adapted more easily to change. Groups such as S G Warburg, Kleinwort Benson and Morgan Grenfell have spent heavily to develop their new investment banking operations. However, the issue for these banks is one of capital. Although they are fiercely independent, doubts about their ability to survive on their own have strengthened, particularly since Hill Samuel indicated its readiness to be bought by UBS in order to get a leg up in the world.

Whether it would be easy for someone to acquire a UK merchant bank is another matter. The collapse of the UBS/Hill Samuel talks over the complexity of the deal and, possibly, price was an object lesson. The fact that Morgan Grenfell is still independent, despite being stripped of many of its defences by the Guinness whirlwind, is testimony to the loyalty of its friendly shareholders, and to the challenge of mounting a bid acceptable to Morgan's best and brightest.

The prize attracting all Britain's biggest banks is to be counted in the global league, and all of them are busy building up their operations in key financial centres abroad. Undeterred by the massive losses suffered by Midland Bank through Crocker in California, NatWest has also just spent $820m acquiring a large bank in New Jersey. It seems unlikely, though, that more than two clearers and two merchant banks - at the very most - will earn that accolade.

However, the irony behind this drive into sophisticated international markets is that they are, by any measure, the least profitable for banks, and can probably only be justified on the grounds that it is necessary to attract and retain the best corporate clients.

The most lucrative market for UK banks remains their own back garden, the British high street. This is evident not only in the breakdown of bank profits which show booming domestic earnings, but also in the profitability leagues. According to the annual survey by IBCA, the London analysis firm, the country's two most profitable banks in terms of return on equity are also those with the smallest international and investment banking businesses: the Yorkshire Bank and the newly independent Trustee Savings Bank.

Much of this can be traced to the strength of credit demand in the UK, particularly in the personal sector. Despite *all the talk* of competition among banks and the newly deregulated building societies, lending margins remain high enough for the Monopolies and Mergers Commission to warrant an investigation of credit card charging practices. The booming housing sector has also produced record demand for mortgages.

These highly profitable operations, backed by the new aggressiveness which banks are putting into their high street operations, could, however, contain the seeds of future difficulties. With the level of personal debt also hitting record heights, concern is being voiced increasingly about the prudence *of bank lending policies.* Mr Brian Quinn, the head of supervision at the Bank of England, recently warned that *banks were "deluding themselves"* if they imagined that these policies were not being relaxed.

The Bank has acquired stronger supervisory powers as a result of the new Banking Act which comes into full force at the beginning of next month. But its accountability to the Treasury for the prudent conduct of the banking industry has also been strengthened, which may account for some of its growing anxiety about the rate of lending, regardless of whatever inflationary dangers it also sees lurking there.

If speculation about a possible foreign acquisition of a UK bank does result in a bid, the Bank will also be forced to disclose its latest thinking on the control of British banking. The Clydesdale and Hill Samuel incidents showed that there is no longer any outright bar on foreign ownership.

Clearing banks

New strengths and a ticket to the City's turf

BRITAIN'S CLEARING banks - long considered to be among the more staid creatures on the UK financial scene - are living through exciting times, possibly more exciting than some of them might have wished.

Big Bang, deregulation, technological progress, the fast-changing role of banks, all are reshaping the industry. But far from undermining their traditional dominance of the finance business, as many had predicted, the great changes and upheavals of the last year or two *may even have strengthened* the position of the clearers at the centre of the UK financial system.

The Big Bang is responsible for much of this: it has given banks the opportunity to enter turf that traditionally belonged *to the City, such as stockbroking* and investment banking. They have done so with varying degrees of success, but they are now much more prominent in the City than they were only a couple of years ago. Mounting competition from new quarters, *particularly the newly de-regulated* building societies, has also highlighted the enormously strong position which the clearers occupy in the high street, and has shown them determined to fight to preserve it.

The changing character of the *clearers comes through strongly* in the people who run them - and three of the Big Four have acquired new chief executives since last year.

At NatWest, the UK's largest clearing bank, the chief is Mr Tom Frost, a firm believer in *the need for efficient market*ing, and a strong international presence for banks.

"People cannot say to us 'move over' because we won't," he says. He can afford to be forceful. Managed with a well-balanced mix of aggression and caution, NatWest has emerged as the UK banking industry's great success story. It earns more money than any other bank in the world except Citicorp of the US, which is half as big again.

A more outgoing style is also emerging at Barclays, where Mr John Quinton has recently moved into the executive chairman's office with the message that Barclays people must go out and sell, and that bankers must take a high profile to win their battles.

At Midland, Sir Kit McMahon has attacked the bank's serious problems, which stemmed from the Crocker acquisition and Third World debt, by ruthlessly cutting back or selling non-es*sential businesses, and trying to* focus the group on worthwhile markets.

Lloyds, too, under its chief executive Mr Brian Pitman, applies strict profitability measures and has not been afraid to pull out of markets where the *returns are below standard* even if this means beating what others see as humiliating retreats, from the gilt-edged market, for example.

But though the clearers are showing a new level of determination, they have been helped *by some of the most favourable* business conditions for very many years. The credit boom in the UK has fuelled a strong rise in profits which has helped tide the clearers over bumpy patches, while the long-lasting bull market on the stock ex*change has justified the heavy* outlays they incurred in preparing for last year's Big Bang - which probably totalled over £300m in acquisition and start-up costs.

At the same time, a combination of more sophisticated and *aggressive marketing in the* high street has enabled the banks to hold on to, if not actually increase, their share of consumer deposits, and gain a healthy slice of personal and mortgage lending. This has also been costly: the banks have to pay *higher interest to attract* deposits, but they have also been able to hold lending rates high - so successfully, in fact, that their credit card charging practices are now being officially investigated.

The banks were further spurred by the flotation last year of the Trustee Savings Bank and the fillip which its eye-catching marketing campaigns have given to competition. The prospect of the flotation in the years ahead of the National Girobank suggests this process will continue.

While the Big Bang marked a major phase in the diversification of banks away from their traditional high street business, other changes have occurred as well. The clearers are now engaging in an ever widening *range of activities, including es*tate agency, insurance broking, life assurance, fund management, travel services, and stockbroking. The TSB, with £1.5bn to spend from its flotation proceeds, has launched into insurance by buying the Target *Group, and made a thwarted ef*fort to enter the travel agency business by bidding for Hogg Robinson. Since it already engaged in businesses like car rentals, it is the most diversified of the big high street banking names.

None of the banks *has yet* welded the activities together into the much-forecast financial supermarket, and it may be some time before they do because of the scepticism that still exists about this approach. However, the broad trend is clear: the clearers are becoming the dominant creatures in the UK financial services business.

The process of change has also created greater differentiation among the banks. Although the basic high street banking services which they provide differ only in detail, the markets which the various banks have chosen to enter, and the way they approach them, vary widely. Managing a bank in the old days was largely a matter of running a sound balance sheet. Now that is only part of the job: today's bank chief faces complex choices of strategy.

It is no longer strictly accurate to talk about the Big Four. NatWest and Barclays are now not only very much larger than the other two, Lloyds and Midland; they have also shown a much stronger commitment to investment banking since Big Bang, and they nurse major ambitions in the global capital markets with their new offshoots, respectively County NatWest, and Barclays de Zoete Wedd (BZW). If this trend continues it will most likely result in NatWest and Barclays becoming the only two clearers of world standing. The others would be relatively smaller and more specialised.

However, Lloyds Bank may yet make a great leap forward through acquisition, either by renewing its bid for Standard Chartered, the London-based international bank, or by buying an investment banking business. Lloyds has a reputation as a strong, well-run bank, but its relatively small size remains a handicap in a market with such powerful competitors.

Despite Sir Kit's surgery, Midland's prospects remain hard to assess. There is a widely held belief in the business that the group will be bought by a foreign bank seeking access to the UK market, or may even merge *with one of the other clearers.*

There is a determination in Midland to remain independent, but it can no longer count on much help from Threadneedle Street. Although the Bank of England has never said so in so many words, it would *now have little power or reason* to stop a large UK clearer from passing into different ownership, so long as it was respectable.

David Lascelles


Contrasting styles: Mr John Quinton (left), of Barclays, and Mr Tom Frost, of NatWest

Clearing bank profits

(£m pre-tax)

	1986	1987 interim
Barclays	895	(40)
Lloyds	700	(697)
Midland	494	(665)*
NatWest	1011	251
Standard Chartered	254	(224)
TSB	206	132

*including effect of £916m LDC debt provision which was carried as an extraordinary item.

Merchant banks

Thrive, merge or specialise

SURVIVAL HAS long been the name of the game for the City's merchant banks, but seldom more so than now. The stresses of a fast-changing world are rapidly sorting them out, into those which are likely to thrive in the new environment, and those who may have to merge for strength or retreat into specialisation.

This message came over vividly during the (eventually abortive) acquisition talks between Union Bank of Switzerland and Hill Samuel in August. Hill Samuel, which is a leading though not top ranking name in the business, needed a powerful partner to make headway, according to its chairman Sir Robert Clark, or else it would just be a matter of "slogging on".

For the City's fifth largest merchant bank, with a net worth of some £200m, to contemplate sacrificing its independence was indeed a sign of the times. But there are at least two reasons for it.

One is that London's deregulated marketplace, post-Big Bang, now pits the merchant banks directly against much stronger foreign competition, particularly from North America and the Far East, though also from the merchant banking subsidiaries of the UK clearing banks who can count on powerful parental backing. Although the merchant banks' local connections with UK clients are strong and valuable, they cannot be counted on to win business as before.

The second is that Big Bang has hastened the replacement of the UK's time-honoured methods of corporate finance with US-style investment banking. Where previously merchant banks lived by their wits and left underwriters to put their *capital at risk*, they will now have to do the whole job themselves. Merchant banks need much more capital to conduct their business.

Mr John Craven, the new chief executive of Morgan Grenfell, said: "The whole practice is going to change, and I don't think people realise it yet. Groups like us are going to have to bear more risk."

The strain of adjustment has shown through in the merchant banks' accounts where profits are being squeezed by heavy development costs and the sky-high salaries now commanded in the City.

S G Warburg, widely viewed as one of the most successful UK merchant banking groups, has made particular efforts to secure an independent future for itself. Apart from building up one of the largest UK-based international investment banking operations, it has added substantially to its capital in recent months by floating off part of its fund management side, and making a rights issue. With a book value of $870m, it can now measure itself against the smaller of the leading Wall Street firms (First Boston, for example, is worth $730m).

This makes it even more likely that other leading UK houses, like Kleinwort Benson and Schroders, will also have to work hard to ensure their place in the race. But there are many sceptics in the City who doubt whether, in the long run, more than one or two of the larger UK merchant banks can hope to realise big ambitions on their own.

The reasoning changes further down the size scale. Smaller merchant banks are rapidly coming to terms with the changing market place and have adopted new strategies to cope. The two favourite paths are specialisation, and the formation of alliances with other banks or friendly shareholders.

Lazards has concentrated on *giving advice rather than hiring* out its capital, and seems comfortable under the parentage of the Pearson group. Barings, still privately owned, believes it can get enough capital to flourish. So, too, apparently can privately-owned Rothschilds and Robert Fleming. All these banks, particularly Flemings, have sizeable operations overseas.

Hambros is pursuing a highly individualistic route which in*cludes* banking and estate agency, and is built on a growing set of alliances with friendly European banks. Brown Shipley, also, has sought large friendly shareholders to protect it from predators. Henry Ansbacher has several shareholders, headed by the Groupe *Bruxelles* Lambert.

One tiny merchant bank, Singer and Friedlander, has even bucked the trend by breaking free from its parent, Britannia Arrow, and re-establishing itself as an independent bank. Mr Anthony Solomons, the chairman, believes he can succeed with a clear, specialist strategy.

The grass roots of the business is also flourishing. Virtually every month there is news of some new merchant banking operation, often set up by departed senior executives from large groups keen to run their own businesses. British & Commonwealth, the rapidly emerging financial services group under Mr John Gunn, has also set its sights on investment banking.

All this means that the question of who controls UK merchant banking has become a lively one. Warburg fought long and hard to shake off Mr Saul Steinberg, the US corporate raider who built up a 14 per cent stake. Warburg was worried that Mr Steinberg's presence would frighten away business.

Since then, the idea that merchant banks are "in play" has attracted many speculators to their shares, particularly from Australia, which has been unsettling. In the case of Guinness Peat, which includes the accepting house Guinness Mahon, this resulted in a £340m hostile takeover bid by Equiticorp of *New Zealand.*

Yet, as has been noted, several merchant banks have welcomed large stakes taken by seemingly more benevolent institutions, reckoning that it is worth sacrificing a bit of independence for the sake of some *stability.*

Merchant bankers made no secret of their concern about the ownership provision of the new Banking Act, because they feared it would reduce the measure of protection which they have traditionally expected *from the Bank of England or* Whitehall. Their lobbying succeeded in producing ... tightening of controls over bank shareholders.

But generally, parliament was unwilling to grant merchant banks any special privileges, *particularly in the wake of the* Guinness scandal. As a result, there is little that the UK authorities can do under the new Act to prevent someone acquiring a controlling stake in a bank so long as he is "fit and proper", other than by indulging in some form of blatant political protectionism.

In recognition of this new reality, the Accepting Houses Committee, which acts as the merchant banks' trade group, is in the process of reviewing its strict membership rules. In the past only independent UK banks could belong. But now it is likely that foreign owned banks will be admitted too.

David Lascelles

Merchant bank results

Profits £m	1985/86	1986/87
Hambros	43.4	60.8
Hill Samuel	61.3	61.8
Kleinwort Benson	60.3	78.8
Morgan Grenfell	68.8	82.2
Schroders	29.2	72.2
S.G. Warburg Group	91.8	98

Note: All figures pre-tax except Schroders which are post-tax.

Building societies

Main challenge on the home front

THE FIRST 10 months experience of last year's Building Societies Act, which came into force at the beginning of this year, have been rather patchy.

The Act was billed as a major liberalisation of a cosseted and traditional industry, which would benefit the consumer by injecting competition into areas previously the preserve of banks, estate agents or other financial services companies. Societies were to be allowed to offer their customers banking, housing and investment services.

However, as a consequence of caution on the part of the societies, conservative supervision on the part of the Building Societies Commission and defects in the original drafting of the Act, *much that was promised or* hoped for has failed to materialise.

The most obvious impact of the Act has been on the estate agency market. Estate agents are the first point of contact for prospective homebuyers and have increasingly used this position to arrange mortgages for their customers, collecting commissions on the way.

Many societies have been so afraid of losing business in this way that they have gone into the market and bought up networks of agents. Even those, like Abbey National and Woolwich (the second and fourth largest societies), which last year balked at the idea of buying estate agents, because of the large amount of goodwill they would have had to write off, have now modified *their line.*

Nationwide Anglia (number three in the industry) has the largest network of estate agents with 400 branches; Halifax (number one) has 225; Leeds (number five) has 48; and Abbey has about 50, though it plans to expand the network to 600 over the next two years by a mixture of acquisition and franchising.

The progress in offering banking services has been more varied. The most imaginative product of the year is probably Nationwide's FlexAccount. This is the first mass-market interest-paying current account to be on offer in Britain and could potentially hurt banks very badly, as they are used to the "endowment effect" of not having to pay interest on current accounts. Nationwide *claims* FlexAccount has been a great success, though it refuses to give out details.

On credit cards and electronic cashless shopping, societies have been hampered by errors in the Act. The Government had intended them to be able to take part in both areas, but lawyers at the commission discovered they did not have the power to do it.

This error in the Act is now to be resolved. Both Halifax and Abbey are going to apply for membership of Visa or Mastercard - the two main credit card companies - and also expect to be members of Eftpos UK, the company developing electronic cashless shopping in Britain.

In other areas of banking, there has been some progress, but only by the largest societies. Halifax and Abbey became the first non-banks to join the clearing system when they were admitted to membership of the Association of Payment and Clearing Services earlier this year. Abbey has also started making personal loans and expects to have lent £100m in this way by the end of the year.

One of the most important regulatory changes has been the polarisation rule. Most societies have decided to become independent brokers.

In providing investment services, the experience again has been patchy. National & Provincial, Nationwide, Cheltenham & Gloucester and Bristol & West have all signed deals with stockbrokers to buy and sell shares through their branches in order to capitalise on the interest in shares that has been sparked off by the Government's privatisation issues and the rise in the equity market.

It remains to be seen, however, how much these societies are prepared to invest in pushing sharedealing, especially as the *more money* that is *funnelled* into the stock market the less there will be to put on deposit with a building society. National & Provincial, in particular, is unhappy that last year's Act did not give it the power to buy part or the whole *of a broker.* This would have justified investing larger sums of money in wider shareownership.

But it is not just the Building Societies Act that has restricted societies. One of the most important regulatory changes has *been the polarisation rule*, covering the sale of unit trusts, pensions and life assurance, devised by the Securities and Investments Board, the new financial services watchdog.

As a consequence, most societies have decided to become independent brokers giving advice on the whole range of products available in the market. But one concern is whether they will be able to train up their staff to give sufficiently good advice on personal pensions when these become readily available next year. Another is whether societies will be allowed to sell deposit-based pensions at all, because of another error in drafting the Building Societies Act.

Polarisation has also divided the retail financial services industry, with Abbey choosing not to become an independent broker but to sell the life, unit trust and pension products of only Friends Provident, the mutual life company. In doing this, Abbey is taking a similar line to the large clearing banks; but the decision has been criticised by those who think societies, as mutual institutions, should give their customers best advice, not try and earn the greatest profits from them.

The last year has also seen a dramatic change in building societies' fortunes in the mortgage market. Whereas previously they accounted for about 75 per cent of all home loans in Britain, they made just over half of all net mortgage lending in the second quarter of 1987. Banks and new specialist mortgage lenders have both increased their market shares dramatically.

The reason for this change is partly more aggressive marketing by the banks and new lenders, but it is mainly the consequence of societies' not being allowed to raise more than 20 per cent of their funds from wholesale financial markets. Competition for retail deposits - intensified by the pull of the stock market for small investors - has meant that many societies are nearing the limit and have therefore been acting rather meekly.

Not surprisingly, pressure is being exerted on the government to raise this limit, and societies are reasonably confident of a new maximum of 30 per cent. They argue that their competitors are not subject to any such restriction at all.

As 1988 approaches, the future structure of the industry is uncertain. Further mergers of small and not so small societies (witness Anglia's record £1... merger with Nationwide ... month) to form larger groups better able to withstand competition can be expected. But what will the largest societies do?

Much depends on the commission and the Government. The commission has already taken the first tentative steps to a more flexible approach to regulating societies, but it still has a long way to go. The Government, for its part, will have to decide whether a completely new act, which takes away the remaining restrictions under which societies operate and allows genuinely free competition in the retail financial services industry, is needed.

If the commission and the Government are flexible, the largest societies will continue to work within the system. If not, they may take the only other option and become banks - as they will be allowed to from next year.

Hugo Dixon

صورة عن الأصل

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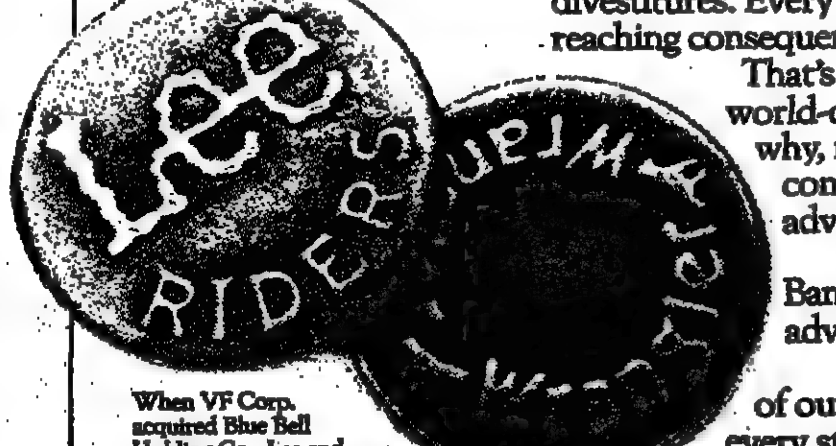

When VF Corp. acquired Blue Bell Holding Co., Lee and Wrangler jeans joined forces in the largest merger ever executed in the apparel industry. Bankers Trust initiated this $762 million transaction and was financial adviser to Blue Bell.

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Foreign banks

A chance to move in on the stock market

LONDON'S ATTRACTIONS to foreign banks as an international financial centre, already powerful, have been further strengthened as a result of Big Bang. But the pattern of development has also changed. Instead of the medium-term Eurocurrency lending, which provided the early post-war boost to the City's foreign bank community, attention is now focused on the capital markets.

The main reason, clearly, is the opportunity afforded by the changes associated with Big Bang for banks to move in on the stock market. The opening has been taken with enthusiasm. It is true that one recent planned takeover, of merchant bank Hill Samuel by Union Bank of Swizerland, fell through. But banks from North America and elsewhere have moved vigorously into the capital markets area.

Acquisitions of stock market firms have included, forexample:

Hoare Govett (Security Pacific), Capel-Cure Myers (ANZ), Sheppards & Chase (Banque Arabe et Internationale d'Investissment), Laurie Milbank and Simon & Coates(Chase Manhattan), Scrimgeour Vickers (Citicorp>, Buckster & Moore (Credit Suisse), Phillips & Drew (Union Bank of Switzerland), James Capel (Hongkong & Shanghai Banking),Panmure Gordon (North Carolina National Bank), and Kitcat & Aitken (Royal Bank of Canada).

Other foreign banks have, with equal enthusiasm, built up their own capital markets teams, often setting up separate subsidiaries for the purpose, and incidentally contributing substantially to the inflation of salaries in the City. And there has been a clear trend for London to gain in relative importance as the third leg with New York and Tokyo in the global banking village. There has been some reverse flow - Credit Commercial de France moved its dealing and arbitrageteam back to Paris - but the movement has generally been in the other direction.

Other European centres have their importance - Switzerlandand Luxembourg particularly in private banking - but Paris has never really achieved its hoped-for lift-off as an international centre, and West Germany lacks the cohesion of markets characteristic of London.

Recent moves have highlighted London's magnetism; for example, Banque Nationale de Paris brought its capital markets team to the City, with plans to build BNP Capital Markets up to around 100 people; Deutsche Bank switched its Eurobond business to London; and Swiss Volksbank upgraded its London operation to full branch status and moved its capital markets trading in from Luxembourg.

As well as changes relating specifically to London, moreover, the recent developments reflect more general trends in banking. These include: the securitisation of banking (replacing traditional lending with marketable instruments); the move towards off balance-sheet types of transactions; and the proliferation of new instruments in the capital markets, which has created a mass of more or less happy acronyms for bankers to struggle with. It is in London, with its long experience of international banking and its large pool of banking talent, that much of the innovative energy has been found.

One outstanding consequence of these movements has been a substantial increase in the numbers of people employed by foreign banks and securities houses in London, perhaps the easiest measure of their importance to the City.

Records held by *The Banker* going back 20 years show that these numbers have risen substantially over that period, with large rises particularly in the early 1970s, and again late during that decade. Last year, though, the numbers jumped by over a quarter to nearly 54,000. In part, this reflects natural growth and recruitment, as well as the arrival of new banks. But the main factor has been the acquisition of stock market companies by foreign institutions, and the build-up of capital markets teams which have effectively transferred people into ultimately foreign employment.

It is not only in the City that foreign banks have made their impact. In terms of employment, several have large operations outside London, providing back-up to the City activities - for example, Chemical Bank's operations centre in Cardiff.

A number of foreign-owned institutions are prominent in retail lending activities. The top half-dozen finance houses in Britain are UK-owned. But among the top 20 are names such as Citibank Trust, Commercial Credit, HFC Trust & Savings, Associates Capital Corporation and Beneficial Trust. Overall, foreign banks account for around a quarter of lending in sterling in the UK and some two-thirds of currency lending.

In spite of the attractions of the UK's international anddomestic markets, nonetheless, there have been signs in recent years of a marked slowdown in the numbers of new foreign banks arriving. There were 114 foreign banks represented in London 20 years ago, whether through branches, representative officesor subsidiaries. A surge of growth in the early 1970s, when US banks in particular were attracted by the Eurocurrency markets, took the number to 232 in 1973. By 1980, after a second wave of arrivals, the number had reached 353. Since then, the population has grown more slowly.

In the past couple of years, however, the number has been more or less stable at around 400. This reflects a number of withdrawals as well as arrivals. They include in particular Wells Fargo, which, after reassesing its policy, decided to concentrate on its Pacifc rim outloook. And the newcomers have tended to come from either the less developed countries or from among the ranks of more specialised banks - such as France's biggest, Credit Agricole, and savings banksfrom various parts of the world - which have only recently begun to break out of their traditional bounds and move into internatinal banking.

Last year, for example, *The Banker* list showed 19 new names, of which 16 were as representative offices. Two each were from Japan (Nippon Trust & Banking and Hyogo Sogo Bank> and Saudi Arabia (Arab National Bank and Saudi BritishBank). The others came from a wide spread of countries: Denmark, Finland, Greece, Switzerland, Spain, Venezuela, Austria, the US, Gibraltar, Luxembourg and France. Othernewcomers included one branch and two subsidiaries.

It is not surprising that the inflow has slowed down. Virtually all the top banks likely to have aspirations to achieve an international presence are already in London in one way or another, either with direct representation or with a stake in one or other of the consortium groups. Yet growth continues.

In particular, the number of foreign-owned banks in London has been swollen by the Bank of England's granting of banking licences to two of the top four Japanese securities houses, Nomura and Daiwa; the other two, Nikko and Yamaichi, are expected to follow as part of a deal with the Japaneseauthorities on reciprocal access to markets.

Michael Blanden
The Banker

London's foreign banking community

Year	Directly represented*	Indirectly represented†	Total
1967	114	—	114
1968	135	—	135
1969	138	—	138
1970	163	—	163
1971	176	25	201
1972	215	28	243
1973	232	35	267
1974	264	72	336
1975	263	72	335
1976	265	78	343
1977	300	55	355
1978	313	69	382
1979	330	59	389
1980	353	50	403
1981	353	65	418
1982	379	70	449
1983	391	69	460
1984	403	67	470
1985	399	64	463
1986	400	47	447

*Directly represented through a representative office, branch, or subsidiary.
†Other banks indirectly represented through a stake in a joint venture or consortium bank.

Source: The Banker, November 1986.

Foreign banks; top employers

	Employees in London	Elsewhere	Total
Citibank	4,500[1]	NA	4,500
Bank of Credit and Commerce International	2,331	159	2,490
Chase Manhattan	2,480[2]	NA	2,480
Australia and New Zealand Banking Group	1,976[3]	—	1,976
Bank of America	1,300[4]	125	1,425
Manufacturers Hanover	1,250[5]	3	1,253
Hongkong and Shanghai	1,150[6]	NA	1,150
Morgan Guaranty	1,150	—	1,150
Chemical Bank	618[7]	264[8]	882
Bankers Trust	800[9]	—	800
Royal Bank of Canada	784[10]	—	784
Swiss Bank Corporation	740[11]	5	745
Credit Suisse First Boston	560	—	560
First Chicago	550	—	550
Westpac	514	19	533
Canadian Imperial Bank of Commerce	525	—	525
American Express Bank	300	160[12]	460
Banque Nationale de Paris	427	12	439
Bank of Montreal	400	—	400
Continental Illinois	400	—	386

[1] Includes Citicorp Investment Bank and 1,000 at Citibank Savings.
[2] Includes Chase Manhattan Ltd and European area office.
[3] Includes Grindlays Bank and ANZ Merchant Bank.
[4] Included Bank of America Ltd. Also BankAmerica Finance (this year sold to Bank of Ireland).
[5] Includes Manufacturers Hanover Ltd.
[6] Includes British Bank of the Middle East and Hongkong Bank Ltd.
[7] Includes Chemical Bank International.
[8] Includes operations centre in Cardiff.
[9] Includes Bankers Trust International.
[10] Includes Orion Royal Bank.
[11] Includes Swiss Bank Corporation International.
[12] Operations centre in Poole.

Source: The Banker, November 1986

The Bank of England

Regulator to the robust

MOST APPROPRIATELY, builders have been hard at work inside and outside the Bank of England in Threadneedle Street for much of this year.

Their toils symbolise the transformations that this eminent City institution has been undergoing as a result of the changes that are sweeping through the UK financial services industry (though some builders also accidentally set fire to the Bank, emphasising the dangers too).

The Bank, under its Governor, Mr Robin Leigh-Pemberton, has been involved in two ways. First, it is itself an agent of change, insofar as it has been encouraging the restructuring of UK financial markets and the methods by which they are regulated. But secondly, these changes have also recast the Bank's own role as a supervisor of the banking industry's activities.

While much of the Bank's work last year involved preparations for the Big Bang, where it essentially did the job of stage manager for the great event, its focus this year has been on adapting the regulatory apparatus to an era when banking has become a much more robust and complex business.

Major developments have included the passage of a new Banking Act which updates the previous 1979 Act, the establishment of a potentially epoch-making accord with the US to harmonise the two countries' banking supervision, and the creation of a new regulatory regime for the City.

The new Act, which comes into force in October, will beef up the Bank's powers to regulate banks by giving it stronger rights to demand information and obtain compliance from bankers.

The Act did not have quite the smooth passage many people expected: there were lively debates over the extent to which the Bank itself should be kept under tighter Whitehall control (which it will be), and over foreign acquisitions of UK banks (these will be more carefully monitored). But broadly it sets banking supervision on a more formalised footing, and puts a greater onus on the Bank to account to the government for the stronger powers it has been given.

While the debate over the Banking Bill was going on, the Bank had also embarked on its scheme to raise banking supervision to the international level, through its accord with the US banking authorities which it hopes eventually to extend to all the major banking nations.

The accord is designed to create common capital requirements for all banks in the subscribing countries. This is a highly ambitious aim since, in the past, countries have not even been able to agree on what capital actually is, let alone how much of it banks need to operate prudently.

But the UK-US draft document tries to create a definition of capital, and lays down a method for calculating how much of it a bank needs, based on the size and riskiness of its assets. It also says that all banks will have to have a minimum amount of capital (which will be published as a ratio of capital to total assets), and that most banks will have to have more than this.

The Bank and the Federal Reserve Board hope that other countries will join by the end of the year. Most European nations have agreed, and the Japanese, who are viewed as the key to its success, have approved in principle. However, several crucial points, including the treatment of some of the newfangled financial instruments for capital purposes, and the actual minimum capital ratio, have yet to be announced.

Generally, bankers are in favour of this initiative, since it creates the international "level playing field" they so often call for. But they will need to know what capital levels the authorities intend to set before they pass final judgment.

Closer to home, the Bank has also been closely involved in establishing a new regulatory regime for the City in the wake of the Big Bang.

This major event has raised many new issues in banking regulation, the main one being how to treat banks when they diversify beyond their traditional territories and start to become leading dealers in the securities markets. Not only do they incur greater risks, but they also come into competition with non-banks, like US securities houses, who are probably more lightly regulated.

Regulation of the investment markets was assigned under the Financial Services Act to the newly constituted Securities and Investments Board, with whom the Bank will have to share these responsibilities. Under a compromise arrangement, the Bank will check that banks are abiding by the SIB's rules but it will not be able to enforce them. This may not be a satisfactory arrangement, particularly in a crisis when much buck-passing can be foreseen. But the Bank was not going to yield regulatory turf to a newcomer.

The Bank also made sure that it got responsibility for regulating the non-investment financial markets (such as foreign exchange, money and bullion). For these, it will create a list of approved institutions. In typically British fashion, the list will have no legal force, but the Bank is confident that it will nonetheless be highly respected.

So the Bank has emerged from all the changes with greater powers and wider responsibilities. It can also claim some of the credit for the - comparatively - smooth passage of Big Bang: there have been no major casualties, and where banks have withdrawn from the markets (in the case of Midland and Lloyds), the retreat has been orderly.

However, the resulting regulatory structure is not altogether satifactory. Big Bang blurred the dividing line between banking and investment, allowing banks to become big players in both markets. Yet regulation is now split between the Bank and the constellation of new regulatory bodies grouped round the SIB. Between them there is a bothersome degree of overlap and competing interest.

It may be that an opportunity has been missed to bring about a more far-reaching transformation of UK financial regulation by creating a body with single responsibility to oversee all these markets. It could have been a greatly enlarged Bank of England, or it could have been something new. Such change may still be on the way.

David Lascelles

Electronics

Eftpos becomes a flexible friend

Midland Bank's new generation of open-plan banks includes self-service statement printers

ELECTRONICS IN British banking has come a long way in the past few years. Services and facilities that seemed only technological pipedreams in the early 1980s are now in place, and banks and their customers are coming to terms with the full implications of electronic money.

The most dramatic changes have been seen in personal payment services. Three years ago, moves to establish a national system for paying retailers' bills electronically seemed hopelessly bogged down in a bureaucratic morass. Now, the first stages of the development of a national electronic funds transfer at the point of sale (eftpos) system have been agreed; and a document, the Business Service Specification, which sets out the essential elements of the plan, has been published, so that retailers and the public can see what is intended.

The eftpos saga is in some ways a model of the mannner in which electronic financial services are developing in the UK. Earlier eftpos schemes had involved rigid proposals that had more to do with technological 'gee-whizzery' than with an understanding of each banks' competitive position.

Throughout the history of eftpos, there has been a technological emphasis on instantaneous transfer of cash - from purchaser's bank account to retailer's bank account - at the moment of sale. But it has gradually been realised and accepted that other facilities are of much more significance to banks and retailers alike - methods of checking that a plastic bank card is genuine, for example, and that the purchaser is within his or her credit limit, and ways of permitting competition between members of the scheme.

So the scheme set out in the Business Service Specification is flexible to a fault; and each bank is free to define and build its own strategy on the foundation of a simple common system.

Meanwhile, as it publicly declared its commitment to the common system, Barclays Bank was ruffling the feathers of its fellow clearers and retailers alike with the introduction of a debit card (its first) which it called 'Connect'.

Now, debit cards are the stuff of eftpos. Such a card allows the immediate debitting of a customer's account after a sale, in contrast to the period of credit, allowed by credit cards such as Barclaycard or Access. Barclay's Connect card, however, is intended for use in electronic point of sale terminals; the transfer of funds does not take place instantaneously but within a couple of days, just like a cheque. A paper voucher is used which, for legal reasons, the customer has to sign; but to all intents and purposes Barclays' Connect is eftpos.

Was Barclays trying to hi-jack the national scheme? its banking contemporaries wondered. But their muted concern was nothing to the row the retailers raised when they realised the trade terms that Barclays was planning to ask. Connect is, in fact, a Visa card, an electronic service made possible by Visa, an organisation owned by its member banks and established for the purpose of providing common payments services. Barclays, in the first instance, intended to market Connect as a Visa card and charge the usual 2 per cent merchant service fee.

Not so fast, the retailers countered, this is a service planned to replace cheques, and we pay only 15p for cheque clearance. We could lose out badly here... In the end, the retailers won, forcing Barclays to offer terms close to those already agreed for cheques.

They won a second time when they forced Midland Bank to withdraw its new 'Vector' (Mastercard) card on much the same arguments. Midland will decide soon whether to relaunch the new card. The impact of electronic financial services on those who have to use them - as opposed to supplying them - is behind lingering worries about the bank's other major card operated systems, the networks of automated teller machines (ATMs).

ATMs are seen as the great success of electronic banking. People like using them, queueing up in the rain rather than facing a human teller in an empty banking hall. The bigger banks have formed alliances to share their ATMs, National Westminster lining up with Midland, and Barclays - after a long and difficult technological struggle - sharing with Lloyds, the Bank of Scotland and the Royal Bank of Scotland to form the UK's biggest network of 3,700 machines. The newest generation of ATMs, built by companies like NCR in Scotland and Diebold in the US, are substantially more reliable and easier to maintain than their predecessors.

The transaction processing software, which links the machines to the banks' mainframe computers, has proved effective and reliable. The problem - and in numerical terms it is still a small one - is that cards are stolen or lost, and people are careless with their personal identification numbers (PINs). So what will happen when the whole country has moved to a plastic card-based payments system? It is a serious question and one which attracts answers ranging from 'moon bumps'- the use of exotic materials to gave a card uniqueness - and fingerprint recognition techniques, to the use of the 'smart' card.

The growing importance of the smart card - the card with a complete computer built into it - in the banking world is a tribute to the foresight of the French technologists who pioneered the concept. In the UK, all the major banks are believed to be experimenting with the smart card, although only one - Midland - is testing the system, in a limited trial based on Loughborough University. The smart card offers a better guarantee that the card is genuine, because of the complexity of its construction, but smart card systems are still at the mercy of the thief through both the card and the PIN.

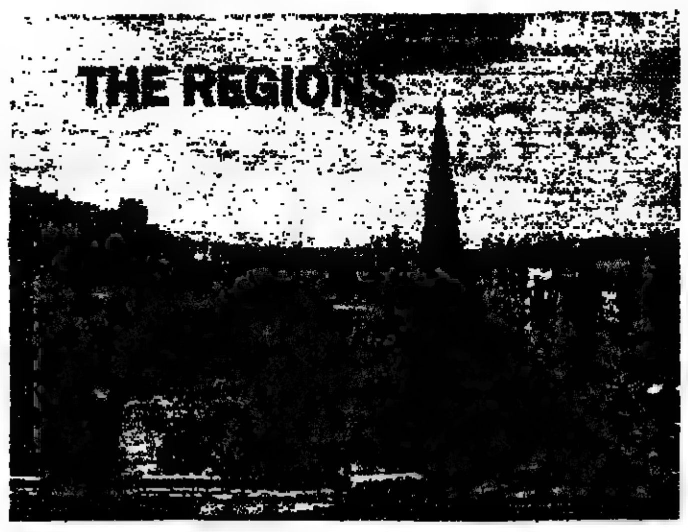
The more glamorous retail banking areas, like eftpos and ATMs, apart, the banks' major task is still to integrate their customer files, to give them a better platform to offer new products and services in the 1990s. At present their files are all too often organised on an account basis, rather than a customer basis. In other words, it is hard for a banker to draw together swiftly all the information he needs about any customer for marketing purposes. There is no simple answer; each bank has to go through the expensive and time-consuming business of rewriting its files.

At Midland, Mr Gene Lockhart, the bank's new and powerful systems chief, believes that he has completed integration of the 8,000 or so corporate accounts. He has yet to tackle the retail customer files. The other major banks are progressing at a similar speed. When completed, it will make it substantially easier for them to sell new services such as home banking, at present offered only by institions such as Nottingham Building Society, Bank of Scotland, Clydesdale Bank and the TSB.

Alan Cane

Scotland

Foreign purchase proves welcome



ONE RECENT event dominates the Scottish banking scene: the purchase for £390m of the Clydesdale Bank from the Midland Bank by National Australia Bank. The relatively settled pattern of Scottish banking is certain to be disrupted, though no one is yet sure exactly how.

The Clydesdale ranked a poor third among the Scottish clearing banks. The leader in Scotland is the Royal Bank of Scotland, whose name has been found all over England since it merged its two subsidiaries, the Royal Bank and Williams and Glyn's, into a single institution. Close behind the Royal Bank comes the assertively managed Bank of Scotland, pursuing a policy of expansion south of the border mainly through direct marketing rather than through branches.

The Clydesdale is reckoned to have between 15 and 18 per cent of the Scottish market, much the same level as that of the TSB Scotland, which in 1986 became the fourth Scottish clearing bank. At the end of 1986 it had total assets of £2.8bn, a year in which its profits declined 5.3 per cent to £27.9m.

The Clydesdale's growth was stunted by its parent, the Midland, which had owned it since the early 1920s. While the other Scottish banks looked southwards for expansion, the Clydesdale had no such outlet, and its lending powers were curbed by the Midland, especially after the London-based institution had itself been hit by disasters in the US and third world.

"The Clydesdale was condemned to a lingering death," one Scottish banker commented in the summer.

Its performance was also hampered by its geographical spread: for historical reasons it is strong in both north-east Scotland, around Aberdeen, and in the west, around Glasgow. It has thus missed much of the business of the Edinburgh financial community, while in recent years it has suffered both from the problems of farmers and the offshore supply industry in the north-east, as well as from the industrial decline of the west of Scotland.

The sudden news that the Midland had sold the Clydesdale, along with its Irish subsidiaries, to National Australia Bank must rank as one of the most popular foreign takeovers Scotland has ever seen. Most observers seemed to share the delight of Mr Richard Cole-Hamilton, the Clydesdale's chief executive, that the Glasgow-based bank was to leave the grip of the Midland. When asked whether Scots would be prepared to bank with an Australian outfit, Mr Cole-Hamilton said: "Why, a lot of our customers seem to think we are owned by a foreign bank already."

But some, including the Scottish National Party, argued that the transaction should have been referred to the Monopolies Commission, not because there was any question of a monopoly being created, but in order that the Clydesdale's new Australian owners should be asked to explain their plans for the bank and make firm commitments about its future. In the event, however, the deal was not referred and is to go through by the end of October.

That means that little more is now known about National Australia's plans for the Clydesdale than emerged on the hectic day of the announcement. Then, Mr Nobby Clark, managing director of National Australia, said that the bank would expand outside Scotland into England and become "the flagship of our European operations". Mr Clark also said that he hoped National Australia Bank could "add value" to a rationalisation process that the Clydesdale already had underway which involves the closing of about 25 of its 350 branches.

But questions remain to be answered about exactly what role the Glasgow headquarters will have. The management of the bank will certainly have to be strengthened. Another question is whether the bank's new owners will insist on harsher treatment of potentially bad debts: Scottish banks are traditionally understanding in supporting some of their customers through difficult times.

The fact that the Clydesdale transaction was not referred to the Monopolies Commission has sparked off questions in Scotland about the future of the Royal Bank.

The Royal Bank is considered vulnerable to a predator because it has no protecting stake; unlike the Bank of Scotland, in which Standard Life has a substantial minority holding. If the Clydesdale avoided a reference, how would the Royal Bank fare?

If the Royal Bank is worried, it is not showing it. The two cases are different, it is argued. The Clydesdale may be glad to exhange one set of alien owners for another, but if the Royal Bank faced an unwelcome approach there would almost certainly be a strong enough outcry in Scotland to ensure a reference.

The Royal Bank is the scene of the other significant recent development in Scottish banking. At the beginning of September, Dr George Mathewson moved from being chief executive of the Scottish Development Agency to become director of strategic planning and development at the Royal Bank.

Dr Mathewson is an able financier - before joining the SDA he was with Investors in Industry (3i) - and is an incisivie long-term thinker. He does not, however, have a background in clearing banking. There are those in Scotland who see him succeeding one of the bank's senior executives in day-to-day to management of the bank.

James Buxton

Channel Islands

Entry limit is an obstacle

BUSINESS IS buoyant, but pressures steadily mount on the financial sectors of Jersey and Guernsey, largely because the islands' governments are imposing ever more oppressive immigration restrictions.

Although the authorities in both jurisdictions insist that the doors are still open for new banks of the right quality, the fact is that only a handful of the world's top banks would find it worthwhile to apply for a full licence.

Channel Islands banks are having to develop new strategies involving the expansion of high value added activities and the running down (or automation) of the labour-intensive paper-churning aspects of financial business.

In Jersey, for instance, legislation is being passed which could mean that, from next year, all undertakings on the island will need to obtain permission for any increase in staff numbers.

Although the idea is that these capping regulations will be applied flexibly, the political pressures are such that there will have to be very good reasons indeed for any exemption from the general freeze in numbers.

Moreover, immigration licences are now being issued only for limited periods of three to five years, and are not automatically renewable. This creates uncertainties, particularly among senior management, where high level staff often need to be brought in from the mainland.

In the past Guernsey has been a little more accessible than Jersey, but now even Guernsey - where in one recent week only 10 people drew the dole out of a population of 55,000 - is proposing a work permit system.

This will be in addition to the existing system of housing licences (those not given licences as essential immigrants are forced to rent, or to buy houses on the open market at prices of the order of £400,000-£500,000).

In these circumstances the growth emphasis has tended to switch from pure banking business to the investment management side, which has also been boosted by the effects of the global bull market.

In Jersey, bank deposits have fluctuated narrowly in the £23bn-£24bn range during the past two years. This partly reflects a fall-off in the volume of low margin syndicated loan business booked through the island. The weakness of the dollar against sterling has also been an important factor, given that two-thirds of Jersey bank deposits are denominated in foreign currencies (mainly the dollar).

As for Guernsey, growth was stronger last year but the latest figures show a drop from £9.5bn last December to £9.2bn in June. The currency influence may be evident here too, and there could also be a seasonal effect (June figures have not been calculated before).

The picture of highly profitable stagnation is not quite the whole story, however. One interesting development in Jersey, for instance, is the imminent arrival of Abbey National Building Society from the mainland, by means of the takeover of Jersey Savings & Loan Corporation, a small local housing finance business with a deposit-taking licence and some £6m in assets.

Abbey National intends to use Jersey as its offshore base to reach British expatriates who prefer to keep their assets outside the UK.

Elsewhere, Guernsey has taken an initiative by developing the concept of 'managed' banks as a way of circumventing the shortage of resources. The commercial relations adviser, Mr John Roper, sent out a circular on the subject last May.

The idea is that managed banks are something more than Caribbean-style brass-plate banks, in that they have proper audited records and pay full Guernsey tax. However, they have no physical presence.

In the island's quest for institutions that deliver the maximum taxable profits in relation to their consumption of local resources, managed banks would appear to be something of a breakthrough.

The trick is achieved by providing that the bank's affairs should be managed by an established local bank. Books generated maybe thousands of miles away are simply recreated on the island.

So far two pioneering managed banks have been established in Guernsey: Banque Paribas (Suisse) is administered by Henry Ansbacher; and a Venezuelan bank, Bank Mercantil, is having its local affairs handled by Royal Bank of Scotland.

Guernsey banks are now being encouraged to regard playing host to managed banks as a possible new profit centre, and they are beginning to market the idea around the world. Some believe that the potential could be very large over a period of time.

At any rate, there seems to be no practical limit to the number of managed banks which could be licensed in Guernsey. Yet it remains to be seen whether, in practice, banks will be happy to have their private affairs pass through the hands of another bank which might, in some cases, be tempted to take advantage, for instance by poaching clients.

Jersey is taking a slightly less aggressive line on managed banks, although it also has two at present - the South African Nedbank, and Svenska Handelsbank from Sweden.

One difference is that Jersey will allow such banks to be administered (as both of these are) by firms of accountants experienced in banking matters, provided a different firm carries out the audit. In fact, the Guernsey regulators also accept that it might be hard in practice to turn down a top accounting firm as a potential administrator of a managed bank.

Barry Riley

Isle of Man

Name hunting in the US

THE TIDE has turned for the Isle of Man's banking sector, although it is not yet in full flood.

Within the past few months the island has captured two important new names, with the arrival of Robert Fleming, the London-based merchant bank with strong far-eastern connections, and Pierson, Heldring & Pierson, the Dutch private bank which is a subsidiary of Amro Bank.

Next month Mr Jim Noakes, the island's banking supervisor, makes an official visit to the United States with the aim of promoting the advantages of the island as a secure offshore centre within the European time zone.

Attracting a major American bank has long been a Manx ambition, frustrated by the general retrenchment in recent years within the troubled US banking industry, and also by the island's own regulatory problems, highlighted by the £40m collapse of the Savings and Investment Bank in 1982.

However, four years spent in revamping the regulation of Manx banking are now paying off. At the same time, the severe congestion being experienced by the Channel Islands is forcing banks and other offshore financial businesses to look more carefully at the attractions of the Isle of Man.

Pierson, Heldring & Pierson was an important capture, being the first substantial continental bank to obtain a full Manx banking licence. There are now 45 institutions on the island with full banking licences, and another 10 deposits takers, but they have until now been almost entirely from the UK mainland, together with a handful of local private banks.

There has now been a step towards the authorities' goal of internationalisation, and the US tour could eventually lead to further arrivals, although Manx officials stress that the impact will only be seen in the longer term.

Mr Don Beacock, manager of Pierson, is optimistic about the potential of the Isle of Man. His bank has extensive activities in offshore finance, being represented in centres like the Netherlands Antilles, Guernsey, Switzerland and Hong Kong.

He explains that the Manx presence complements the capability of the bank elsewhere in its world wide network, for instance by adding the Anglo-Saxon trust concept to the Dutch company management tradition.

Although Pierson, Heldring & Pierson is able to offer the full range of banking services, including deposit taking, the emphasis will be on managing the longer-termassets of high net worth individuals.

Thus the bank has already installed a team of four investment managers on the island. "We are very confident of the growth of the financial sector in the Isle of Man," says Mr Beacock.

Robert Fleming is also using its Manx bank for expatriate investment and trust business. It has been planning to open a UK offshore operation for some time and looked at the Channel Islands, but found that costs there would be very high.

Inevitably the Isle of Man has something of the image of a poor man's Jersey or Guernsey, but, given the lack of growth potential in the Channel Islands, Manx bankers sense an excellent opportunity.

The aim of the authorities is for steady and sustainable, rather than explosive, expansion. That pattern is indicated by the trend in bank deposits, which went up from £3.3bn in March to, it is thought, a little under £3.5bn at the end of June.

Unemployment on the island has been falling, and demand for commercial and residential property has been firm enough to cause a few amber lights to flash in political circles. The priority now is seen as developing an improved international status, rather than drawing in substantial further numbers of mainland institutions.

There remain six private banks, with just 2 per cent of the deposit market, the survivors of a larger number which operated during the island's less well regulated past. The view now is that these remaining local banks are sound, but no more will be licensed.

Undoubtedly the authorities would like to see the arrival of American and Far Eastern banks, with the promise of diversification of the island's international financial clientele.

But although a number of representatives of foreign institutions have been passing through on exploratory missions, it does not look as though any new banking licence applications are just around the corner.

A development worth mentioning, however, is the imminent arrival of the Guernsey company Barfield, which is setting up a trust business in the Isle of Man. Barfield is jointly owned by the London merchant bank Baring Bros and Butterfield Bank of Bermuda.

One focus of discussion within official circles recently has been the possibility of permitting the establishment of managed banks of a kind that are beginning to appear in the Channel Islands. Such banks have a legal presence but no local physical operations, their business being handled by another bank or a firm of accountants.

The decision has been taken to bar such proposals, on the view that it is better for the island to encourage institutions with a real presence.

But it is not ruled out that managed banks might be permitted at some time in the future, should the island experience shortages of skilled staff and space more nearly on the scale now being suffered by the Channel Islands.

Barry Riley

Big Bang and the investment banks

Reckoning delayed

INVESTMENT BANKING has been the *financial market* fashion of the 1980s. The focus of international banking has shifted from the building up of balance sheets, the predominant concern of the 1970s, to earnings through *fees and commissions.*

Nowhere has that shift been more evident than in London, where bank after bank declared its intention to move into the investment banking business.

That the British government was also moving coincidentally to break up the local cartels, which dominated the UK bond and stock markets, provided a further reason for many international banks and securities firms to base investment banking operations in London.

The prelude to the Big Bang of October 27 was marked by a flurry of mergers and takeovers, as international and domestic *banks and securities firms* sought to grab a foothold in as many different markets as possible. Teams of dealers and analysts shifted from one house to another for vast salary packages.

It was already clear before Big Bang that there were simply too many firms seeking too little business, and that many of those buying into the firms would turn out to have paid far too much.

What has happened since has done little to lead to a revision of that view, although the day of reckoning for many may have been put back by a stock market *rally which has pushed share* prices 50 per cent higher in nine months and contributed to an *extraordinary increase* in trading volume.

That said, there is little to indicate that the most dire predictions - of a London market dominated by a handful of mega-firms with world wide clout - will come to pass in the foreseeable future.

There has been time to take stock of developments, however. Many firms have decided, quietly or otherwise, that the problems of trying to be all things to all people are just too difficult to handle.

For some, that decision was made before Big Bang. James Capel, the UK stockbroking subsidiary of the *Hongkong* and Shanghai Banking Corporation, was the only one of the major *UK stockbroking firms to* decide that it would not make markets in UK equities and would act *purely as an agency broker.*

Helped by the reputation of its research team, and perhaps *by some suspicions among shareholding institutions in the UK,* about using brokers who were *also looking to their own books,* the Capel decision seems to have paid off, and the firm has *carved out a significant share of* UK stock market business.

For others, the move came afterwards *and with little kudos.* The most widely publicised decisions were those by Midland Montagu, which withdrew from UK equity market making, and Lloyds, which pulled out of making markets in UK government bonds and Eurobonds.

Fairly or not, the fact that both were British clearers has raised questions about the ability of UK commercial banks to act as major players in the world's financial marketplace.

The moves, of course, may prove to be prescient. It is hard *to make profits when every major* bank and securities firm in the world, some with better credentials, are trying to do the same thing. The pendulum may be swinging back toward commercial banking, which Lloyds for one sees as its core business.

However, withdrawals from these markets are a frank admission that they cannot provide "one-stop shopping" for their corporate customers and that for some services their clients would have to go elsewhere.

There are knock-on effects too. Pulling out of market making in the the gilt-edged market *makes it more difficult for* Lloyds to perform in the vast and rapidly growing international market in foreign exchange swaps.

The much talked about cultural differences between investment and commercial bankers have clearly been a problem too. One version, explaining the Lloyds decision, suggests that the board and senior management simply became tired of ultimatums from investment bankers with views which ran counter to the way they were used to doing business.

Sir Kit McMahon, chairman of Midland Bank, insists that on no account *will the investment and* commercial banking arms of his bank overlap. When the group *consolidates its other busi*nesses at a new headquarters, the investment bank will be deliberately *kept in a separate* building.

The UK merchant banks have faced difficulties too. The Guinness scandal did nothing to enhance the reputation of Morgan *Grenfell or the sector in general.* It also contributed to a sharp decline in lucrative takeover *activity in the early part of 1987.*

Most, committed to be full-service institutions, lack the capital *to be a major force in* the international market place, where the ability to mobilise *capital in the way that the US* investment banks can is increasingly important. For Hill Samuel, the answer seemed *to* be provided by a takeover from the Union Bank of Switzerland, but the hope was shattered when the Swiss bank pulled out.

But US securities firms, too, have been besieged by difficulties over the last year. They are suffering from a global problem which they can put down to the *sharp* growth and increasing sophistication of securities markets world wide.

While their image is one of dynamism, many of the firms are plagued with a problem usually associated with less vigorous industrial concerns - poor management control.

These days, the talk on Wall Street is about management: to correct the inefficiencies masked by the easy profits and rapid growth of recent years, and to control the increasingly complex risks being taken in dealing in volatile financial markets. It is unlikely that London will escape the consequences of the decisions that flow from this new emphasis.

So far, the Japanese have *proved to be slow to enter the* UK domestic markets. Nomura has been the first to gear up to make a market in selected shares, and Nomura and Daiwa are both thought likely to apply for the status of a market maker in the gilt-edged market when the moratorium on new entrants is lifted on Big Bang's first anniversary.

Much of what they have done in the international markets has been very much geared to the demands of the Japanese market, so it is hard to gauge what impact they will have on London. If they decide, however, to apply their massive capital to gouging out a major presence in the UK domestic markets, then there will be a lot *of worried people in the City.*

The other major fear is the onset of bear markets. It has been *tough enough making* money while market psychology has been generally positive.

Stephen Fidler

Retail banking

Penetrating the market segments

IT IS probably happening too gradually to call it a revolution, but British retail banking is changing radically.

Retail banking has always been the clearing banks' bread and butter. In the most recent six months, it contributed between 73 per cent and 87 per cent of *profits* - before tax and before Third World debt provisions - for the biggest four banks, and was the source of nearly all the profits growth.

But, whereas in the past, the clearers managed their vast personal customer bases rather passively, they are now trying to work them harder. They are sharpening up their distribution networks in the hope of selling their personal customers not just the traditional current account and overdraft but the whole range of financial services.

The buzz-words of today are *segmentation* and *penetration. What this means is that a bank* divides its customers into several categories - retired people, students, wealthy individuals, yuppies etc - develops packages of services that are suitable for each "segment" of the market, and then targets its sale effort to that segment.

So far, banks are only a short distance along this route, but they are being helped by socio-economic factors. Britons are borrowing more and more - the personal sector's financial liabilities at the end of 1986 were *£237bn, up from £48bn 10 years* earlier. At the same time, people are building up their financial assets *rapidly* - gross financial wealth was £745bn at end-1986, compared with £152bn at end-1976.

Neither of these markets is the banks' preserve. In lending to the personal sector, their main competitors are the building societies. But the effectiveness of societies in marketing personal loans (allowed since the beginning of this year) has been muted by comparison with the banks' success in the mortgage market, the societies' heartland. Banks' share of net mortgage advances rose from 16.4 per cent in the last quarter of 1986 to 26.0 per cent in the first quarter of this year.

A more worrying trend for the banks is that a few societies are *starting to pay interest on current* accounts. As yet, only one major society - Nationwide Anglia - *does so, but if it catches* on, the banks may have to respond. They would then face a huge hole in their profits.

Already there has been some *innovation* from banks on current accounts. Earlier this year, Midland brought out its Vector account which pays interest in exchange for charging customers a hefty fixed cost. Barclays *has introduced its Connect* debit card, which might still attract new customers if it manages to get universal acceptance from retailers. NatWest has also hinted that it is considering interest-paying current accounts *for* niche markets.

In the financial services market, banks' strategies have had to be modified by the polarisation rule devised by the Securities and Investments Board, the new investment watchdog. This requires banks *to* choose between selling only their own life, unit trust and pension products *through their branch* networks, or giving genuinely independent advice on the *whole range of products* available in the market.

Current account interest payment by building societies is spreading. *The* banks are worried

Banks strongly objected to this rule, arguing that they ought to be allowed both to give their customers independent advice and sell their own products if these were suitable. They were worried that, if they chose to sell only their own products, they would have to sacrifice their highly profitable insurance broking arms. On the other hand, if they gave independent advice, they would lose sales outlets for their unit trust and life products.

Although polarisation clearly inhibits banks' freedom of action, it may paradoxically have helped them by focusing their minds on exactly how they are going to market investment products.

Before polarisation, for example, no bank had a clear strategy for selling unit trusts *through* its branches. They had barely scratched the surface of one of Britain's *fastest-growing financial* markets. Most of them have now decided against the *independent* advice route, and this has freed them to pump products much more agressively through their networks.

Polarisation has also accelerated banks' segmentation strategies. Although each bank has chosen a slightly different route, the general plan has been to divide customers into two categories - mass-market customers and wealthy individuals.

The branch networks are being developed as the main distribution channel for the mass-*market customer.* As well as being offered current and deposit accounts, personal loans and *mortgages,* he is now to be sold unit trust, life assurance, personal equity plans and - at least as far as Barclays and NatWest are concerned - a popularised share-dealing service.

Such customers, theory has it, do not have incredibly complicated finances, so branch staff are capable of advising them. *What's more, they feel safe buying* a product branded with the bank's name on it, so they do not mind the absence of independent advice on those products to which polarisation applies.

Most wealthier customers, however, the theory continues, demand independent advice. Their finances are so complex, moreover, that branch staff would not be able to handle them if they went to their bank to get advice *in the first place,* which they probably would not.

The answer therefore is to *build up a smaller and separate* network of specialist financial services branches, catering *for* these customers. Most of the banks are doing this by converting their old tax and trustee offices. The general plan is that these networks should give independent advice, though Midland's idea is to use it to sell branded investment management and pension products.

In tandem with this segmentation between mass-market and specialist personal branches, banks are doing four other *things to increase the penetra*tion of their products:

First, they are segmenting the other end of the retail market by developing specialist corporate branches. These are designed to give a better service to medium-sized corporate customers by concentrating expertise. Banks also hope that this will help their performance in the personal market by freeing branches to concentrate on personal customers.

Second, *they are* retaining staff so that they become less like clerks and more like salespeople.

Third, they are redesigning their branches to make them look more like retail outlets and less forbidding. Screens are being pushed back and more branch staff put into the front of the office.

Finally, billions of pounds are being spent on computer systems, which will allow banks to focus their marketing strategies more sharply.

Hugo Dixon

Clearers' domestic banking profits

	NatWest	Barclays	Lloyds	Midland
Profits in six months to June 30 before tax and Third World debt provisions (£m)	747	530	369	251
Domestic banking profits* (£m)	619	386	317	219
Growth of domestic profits over previous year (%)	70	25	42	51

*Domestic banking is defined as everything except international banking and investment banking.

International capital markets

Unhealthy time for many players

THE EUROMARKETS are often referred to as the world's third largest securities market, after the US and Japan. But *it* is getting increasingly difficult to delineate exactly what the Euromarkets are.

It used to be the case that domestic and offshore markets were distinct. The Euromarkets have flourished in London since the 1960s, and the heavily protected UK domestic markets continued for a long time, as though their new foreign confreres did not exist.

By now, with Big Bang, the Financial Services Act and the acquisition of most stockbroking firms by firms active in the Euromarkets, the international and domestic markets are one entity, subject to the same regulatory framework. Sterling-denominated securities, domestically issued, are simply one of the tools in a very large shed.

The breakdown of barriers *between international and* domestic markets world wide has occurred concurrently with the *rush by commercial banks into* the investment banking business. Frightened that they would lose long-time customers to investment banks, because they could not handle the issuing and trading of securities, many banks have established capital markets operations.

More than that, they have wanted to be able to compete in all markets worldwide: to be able to deal in government bonds and equities in the world's major financial centres. The widespread interest in primary *dealerships in the UK* gilt-edged market was one example of this trend.

The result of all this is, for many of the players in the international capital markets, a fundamentally unhealthy situation. They are having to compete with each other as never before.

Most recently, they have had to cope with the effects *of* the rise of the yen: an explosion in yen-denominated instruments and a massive incursion by Japanese borrowers, with the result that Japanese securities houses and banks have vaulted to the top of the new issue league tables. Many non-Japanese *bankers claim that this position* has been reached by aggressive buying of market share, though *securities houses* deny this *and* their profit figures have tended to support the denials.

The Euromarkets in London are hugely overpopulated, and it has never been more difficult to make money.

Faced with the prospect that it could not earn a satisfactory return on capital for the foreseeable future, Lloyds Bank this year became the first bank with global pretensions to bite the bullet. It pulled out of the Eurobond market, in which it had operated as a regular, if not one of the largest, participants for many years. It also withdrew from gilts market-making only seven months after establishing an entirely new operation at Big Bang.

Many other senior bank managements must be contemplating similar moves, but to withdraw from securities markets - even if it turns out in the end to have been a sound move - would be interpreted universally as tantamount to consigning oneself to division two.

The tough times of the international bond markets are not just caused by overcrowding.

Dollar interest rates, which fell steadily during the period of rapid expansion of the Eurobond market earlier in the 1980s, have turned upwards. This has all but idled many houses and put a premium on skills in other fields. The Australian and New Zealand dollar sectors, *for* example, have become profitable niches for some banks, including some British players, which have also benefited from a *larger* volume of Eurosterling issues.

The troubles of the dollar *bond* market - *compounded in* the Eurobond market's case by currency worries - have helped *to end the growth of the floating* rate note market, once one of the market's major successes. *The sector was already suffer*ing from a degree of malaise when, late last year, the bottom *fell out of the perpetual sector.*

The market's sudden collapse showed that many perpetuals - some $18bn worth had been issued in a typical rush to follow a fad - had not in fact found investors but were still washing around among the professionals. Perpetual debt depended on secondary market liquidity, precisely because it was undated: the holder would never be paid back, so he needed to know that he would be able to trade it. But liquidity disappeared almost overnight as the market fell. Many market-makers rapidly pulled out, leaving only a hard core who now maintain the market.

The episode was probably the most severe setbacks in the history of the Eurobond market. It tarnished the market's reputation *for* innovation, and exposed its illiquidity at a time when international investors were beginning to put a premium on liquidity. Many investors have deserted the Eurobond *market for more liquid govern*ment bond markets.

Where are Euromarket hous*es to turn?* The most nimble have already moved on to establish substantial operations in the equity and equity-related bond area. The mighty Credit Suisse First Boston, Deutsche Bank and Morgan Stanley are more often found these days heading the issuing syndicates for so-called Euroequity issues - issues of shares employing Eurobond syndication techniques - or convertible debt issues.

The internationalisation of equity markets has become a major preoccupation *for* many houses, which have substantially built up their trading and research capabilities.

There are also signs that the Eurobond market itself is returning to its roots: that with institutional *investors* growing dissatisfied with it, the Belgian dentist and his ilk are again becoming more important. That means that banks with good retail distribution, especially in Switzerland, could do well.

Other sectors of the Euromarkets are still growing: Eurocommercial paper, for example, has attracted a broad range of issuers which have justified the heavy investment of at least some of the would-be top dealers. *A new market in medium* term notes - offered continuously like commercial paper but *for longer maturities - is also* being developed in Europe after its success in the US. Swaps business is huge and growing.

Another constraint on all the players is looming, however. The UK Financial Services Act has established a framewor under which new capital requirements will be placed on all companies carrying on investment businesses in the UK. The players are now counting the cost of these requirements, which will put further pressure on the bottom line. More that that, the new regulations will impose a comprehensive conduct of business code on the once free-wheeling, unregulated Euromarkets.

Alexander Nicoll

UK BANKING 7

Consumer credit

Debt causes alarm

BRITAIN'S CONSUMER lending boom has been great for banks, building societies, finance houses and credit card companies. They have earned larger and larger profits on the back of increased loans.

But the other side of the coin is that debt has been growing astonishingly quickly. So much so that many people from the Governor of the Bank of England downwards are calling for moderation.

This is partly because of fears that consumer lending is contributing to the deterioration in the balance of payments and stoking up inflationary pressures; partly because a substantial minority of people are finding it difficult to pay back their debts. In this latter context, there have been moves to develop a national debt register, which would contain a comprehensive list of people's borrowings so that lenders could judge whether it was sensible to lend them more.

The consumer lending boom has been apparent in almost all sectors of the personal market. *Mortgage debt was £153bn at the* end of 1986, compared with £29bn ten years before. Other debts owed to banks totalled £44bn, compared with £6bn. There has also been a sharp increase in the use of credit cards.

An idea of the profitability of this type of lending is contained in figures published in the Bank of England's most recent annual report. This reveals that the interest margins (defined as net interest income/ average interest-bearing assets) on domestic lending earned by the largest four banks were 5.49 per cent in 1986 compared with a margin of only 1.96 per cent for international business.

The margin would be higher still if the personal sector could be *disentangled* from the domestic corporate sector. This, of course, has to balanced by the *fact* that there are greater costs in collecting deposits and administering loans to the personal sector.

Even so, it is striking that, in spite of the apparent competition in the consumer lending market, interest margins have remained fairly stable since 1982 when they were 5.46 per cent. In the previous year, there had been a fall following a de*cline in nominal interest rates.*

Some indication of the problems caused by the growth in borrowing can be gleaned from figures published by the Building Societies Association, which show that a record 11,620 properties were repossessed by building societies because people were behind with their *mortgage* payments in the first six months of this year compared with 1,810 in the first half of 1981.

The association points out that 11,620 is still only 0.16 per cent of all home loans outstanding at the end of June. But it is also fair to point out that eviction is the last resort and there is an unknown number of people struggling with their debts who do not appear in any statistics.

Although not a cause for panic, the debtor problem is sufficiently worrying for many people to have called for banks and other lenders to be more discriminating in whom they lend to. The main proposal is to strengthen Britain's two credit-reference agencies - CCN and UAPT-Infolink.

The two agencies operate in essentially the same way. They build up computerised files on almost every adult in Britain by buying the electoral roll from local authorities. They then use this as the scaffolding for other personal information relevant to a consumer's credit-worthiness.

One source is Registry Trust, a non-profit company which keeps records of all county court judgments concerning debts of more than £10 which the debtor fails to pay off within a month of the judgment. The problem with this sort of information - known in the trade as "black information" - is that only the worst cases of over-indebtedness are caught in Registry Trust's files. Moreover, the time-lag is such that the debtor may be able to go to other lenders and run up further debts before they can find out that he is having problems.

CCN and UAPT therefore supplement the information on their files in two ways. First, they collect information directly from lenders about debts that are going wrong but have not yet reached the stage of formal default. This is sometimes known as "grey information".

Second, they collect information from lenders even about loans that show no signs of going sour. *The idea of this "white information"* is preventitive. If lenders can find out how much the overall indebtedness of a customer is before they make their loans, they are less likely to lend too much money.

The snag is that there are still huge gaps in the information collected by the two registers and so they are only partially effective. Before they can be comprehensive, they need to persuade banks and building societies to put in white, grey and black information about all their loans - home loans, personal loans, overdrafts and credit-card loans.

Abbey National Building Society has started putting in white information about its personal loans. And most of the clearers have started or have agreed to send black/grey information about their personal loans.

The carrot in each case is that lenders can only get out of CCN's and UAPT's computers the same sort of information they put in.

There is some doubt, though, how much further banks are going to be prepared to go down this route. Although they see commercial advantages from a comprehensive register, some are worried that they would be breaking their traditional duty of confidentiality to customers if they went as far as revealing white information. One possible compromise, which has been suggested by the *Office of Fair* Trading, is that banks should be required to pass on information *to such registers provided they* have obtained the consent of their customers in advance.

There are others who have argued that the whole idea is rather reminiscent of "1984" and that consent is not good enough. Before information is passed on, there must be effective security systems.

Hugo Dixon

Credit cards

Monopolies inquiry

THE DECISION to amend last year's Building Societies Act - expected to be debated in parliament in November - would allow societies to issue credit cards and take part in electronic cashless shopping.

Under the Act, societies are prevented from making unsecured loans of more than £5,000 to each customer. Even if societies were to fix credit card limits at £5,000 or less, it is possible *that customers would find ways* of spending more before the societies could stop them.

Similarly, preventing the abuse of credit limits within an electronic cashless system would be possible only if every transaction were immediately authorised by the society. But the eftpos (electronic fund transfer at point of sale) system being designed for Britain by the clearing banks will not insist on this.

While the amendment is likely to bring building societies firmly into the lucrative field of credit cards, however, more competition with the banks is not likely to result in lower interest rates for card holders.

The Halifax is still uncertain whether it will be applying to join the Visa or the Mastercard system, but it is clear that it is committed to a paperless money transmission system, of which the debit card is a crucial ingredient.

At Abbey National, Mr Stuart Gowens says: "The future is plastic but not in the short term," and finds credit cards the more appealing. The Abbey is likely to approach the Visa network and to lauch a credit card as part of a new "cheque product" - an interest-bearing cheque account.

Both Abbey and the Halifax, however, are reluctant to contemplate the possibility of a decline in interest rates as a result of their entry into the credit card arena.

Mr Gowens points out that, when building societies moved into unsecured lending in January, rates on unsecured loans available from a wide variety of sources remained roughly the same. "We saw little point in undercutting in terms of prices when entering a high-risk business," he said.

Mr Mike Whitehouse, a spokesman *for* the Halifax, cites fraud losses, as well as risk, as a reason for high interest rates on credit cards. But he adds: "The Halifax is moving into the credit card business in search of further profits, not to lose money. Why would we lower rates ?"

"There is no evidence to support the view that the [credit card] market is interest-rate sensitive," he says.

On the one hand, both banks and building societies stress the "high-risk" nature of the credit card business. On the other, both stress the inroads made in the battle against fraud.

Barclays, which has been forced to re-think its strategy following the June launch of its Connect debit card, is now confident of the combined appeal of a Connect card and a Barclaycard - for those items that customers would rather not pay for immediately.

The authorisation system linked with Connect will reduce fraud, says Barclays, and the bank is pleased with the usage of the 500,000 cards issued so far. Barclaycard, too, continues to forge ahead, with 8.7m cards in issue and a rise in turnover of 19 per cent in the first half of this year.

The high profile adopted by Barclaycard and Access may have unforeseen repercussions *for* the banks, however.

Credit cards and the *interest* rates they charge have come to the attention of the Office of Fair Trading, which in May announced a two-year investigation by the Monopolies and Mergers Commission. Sir Gordon Borrie, Director General of Fair Trading, said there was a *prima facie* case that banks, which are earning a return of 50 per cent on capital invested in credit cards, were making monopoly profits.

The investigation is to consider whether the profitability of banks issuing credit cards "may have reached levels which could be regarded as excessive", and whether interest rates charged by them are too high in relation to base rates.

Cards available for use in a wide variety of outlets - mainly Access and Barclaycard - are to be the main subject of the investigation. Its terms of reference have also been widened to include building societies or other institutions that choose to enter the credit card market.

A growing form of credit, issued by large retailers in the form of storecards for use in their shops, is not included within the scope of the investigation, however.

This omission has attracted a substantial number of complaints to the OFT, and is used by both banks and building societies as a defence of existing interest rates on credit cards, which are still substantially lower than those on many storecards.

Dina Medland

International banking

Clearers look overseas

NOTHING COULD better exemplify the divergent paths now being taken by UK banks in their international strategies. In July Midland Bank was forced to sell off its Scottish and Irish subsidiaries and raise a £700m rights issue, largely to repair the lingering damage done by its catastrophic acquisition of Crocker National Bank, now sold. Only a month later, National Westminster Bank an*nounced that it was spending* $820m to buy the fourth largest bank in New Jersey.

If anyone thought that UK banks had been sobered by the sight of the Crocker disaster, or by the heavy cost of Third World debt, this was plainly not true. Despite the huge boom in the UK domestic banking market, most of the British clearers are still extremely keen to expand overseas in order to fuel growth and establish themselves in the *global big league.*

Only a few months earlier, Lloyds had spent $100m buying a bank in Canada. Around the same time, Standard Chartered completed the acquisition of a bank in Arizona. In August, Lloyds spent $67m to buy a slice of a Wall Street investment management firm.

Aside from the Crocker sale, the only *major* instances of a UK banking retreat in the last 12 months has been South Africa, where the three banks most strongly represented there - Barclays, Standard Chartered and Hill Samuel - have all sold out for political reasons.

The huge provisions, totalling £3.4bn, which the UK banks were obliged to make against their Third World loans in response to the US initiative, were also a major setback to their international banking operations. But top bankers view this more as the cost of bad decisions in the past than as a warning about the dangers of overseas banking today.

Naturally, though, the Third World problem has made bankers much more selective about internatioal expansion, and almost all of it is now exclusively directed towards well developed industrial countries in North America, Europe and the Far East.

The banks' overseas expan*sion falls into two distinct* categories. On the one hand, UK banks are continuing to develop their traditional banking activities abroad, by buying commercial banks, opening up branches and expanding their international departments. On the other, much of their activity is directed towards the investment banking and securities business, where growth is being achieved less by acquisition than by building up outposts in key financial centres like New York, Tokyo and Hong Kong, and on the Continent.

The persistence with which the clearers have turned abroad in conventional banking has much to do with the tight limits they perceive to growth in the UK itself. Although they *are earning good profits there* now, the British market is highly competitive and, by many counts, overbanked. Furthermore, none of the clearers could achieve a sizeable jump in market share through acquisition, because of monopoly constraints. The avenue to growth must therefore still lie outside the country.

In NatWest's case, the decision to go for First Jersey stemmed from its growing confidence in the US market, where it made a sizeable acquisition in National Bank of North America in 1979, and has - not without much sweat and tears - turned it into a sound and profitable business. NatWest's new chief executive, Mr Tom Frost, was the man who turned NBNA round, so he can claim some knowledge of US banking.

NatWest, which is the largest of the clearers, is also driven by a strong desire to be counted among the world's top banks. In size terms it certainly rates high: its assets of $123bn put it 17th in the world league, according The Banker magazine's annual table, and with its reputation for sound management it has the ability to hold a high place. It currently earns less than a quarter of its profits from international operations, which is a substantially smaller proportion than its major US competitors.

Lloyds Bank is also putting heaviest stress on the commercial banking side. Although it has not renewed last year's unsuccessful bid for Standard Chartered Bank (which would have given it the largest international commercial banking business of any of the clearers) it believes more money is to be made by offering conventional banking services efficiently than by competing in the fashionable but intensely competitive investment banking market.

After withdrawing from the Euromarkets and the gilt-edged market, it has also rescinded its application for a securities li*cence in Tokyo. Only in New* York, where it has a budding government bond business and its newly acquired interest in the Wall Street firm of Weiss, Peck & Greer, is it developing investment banking.

Barclays, by *contrast*, is principally concerned now with building up a worldwide investment banking business around Barclays de Zoete Wedd, its investment banking subsidiary. *BZW deals in securities in Tokyo, wants to get into the US treasury* bond market as a primary dealer, and has ambitions to become one of the world's leading investment banks.

After its setbacks, Midland's principal international thrust now is in investment banking. It, too, has growing securities businesses in Tokyo and New York, and is putting emphasis on foreign exchange dealing. Significantly, both its US and Japanese operations answer, not to the *commercial banking* side, but to the investment banking side. However, international commercial *banking* is also being emphasised, particularly on services to multinational companies.

One operating setback which the banks suffered during the year was the decision by the UK government to abolish so-called "tax spared loans". By means of these loans, banks were able to take advantage of tax relief to offer foreign loans, particularly for trade finance. The Chancellor said this was an unnecessary subsidy and proposed to abolish it in the Budget. The banks complained the move would hurt export finance and damage London's international financial position.

As well as marketing their assets more effectively abroad, UK banks have been paying more attention to their liabilities. *During the last 12 months,* NatWest, Barclays and Standard Chartered have all sought listings for their shares in overseas exchanges such as New York and Tokyo to tap fresh sources of capital and raise their profile.

David Lascelles

Third World loans

Exceptional provisions

	£m	as % of exposure
Barclays	570	30
Lloyds	1066	30
Midland	916	27
NatWest	466	30
Standard Chartered	400	22

Small companies

Funds still a problem

"I DON'T see it as our role to provide a major part of risk capital for small businesses," says *Mr Roger Bardell, divisional* manager, small business services, at Lloyds Bank.

That view, widely held among the clearing banks, continues to frustrate would-be businessmen who are poised to start up on their own, but lacking the initial capital.

"A major problem for small businesses is the need to raise risk capital - the smaller the business, the higher the chance *of failure," says* Mr Bardell. "But no small business with a properly organised plan should be short of the sort of money it wants to raise," he adds, pointing to the proliferation of schemes now available to fund small businesses.

The reality, however, is rather different, and searching out funds remains a major problem for many small businesses.

Since the early 1980s, the clearing banks have come a long way *with their schemes of*fering finance for small businesses. They provide the bulk of funding, usually in the form of an overdraft facility or, increasingly, a term loan. But the most notable recent changes within *the banks have been* the special divisions which have sprung up to cater exclusively for the needs of small businesses.

Glossy brochures from the Big Five clearing banks (including the TSB) spell out the different *financing on offer,* with the emphasis clearly on education - how to go about setting up a *small business,* a cash-flow projection, a repayment plan.

At National Westminster - an innovative bank when it comes to small businesses - an office *has been set up for the small* businessman to provide information about his business, and receive in return details of all the assistance available to that business from a wide variety of sources.

The information, which is obtained via computer, comes in a customised glossy folder and is *free of charge. Known as the* Business Information Bureau, the NatWest scheme is due to be launched formally on October 1, though a pilot scheme has been operating for 12 months.

"In the last five years, we have *detected a much greater need* [among small businesses] for guidance, information and signposting on the path of organising and running a business," says Mr Kevin Jennings, senior executive, small business sector, at NatWest.

"There is still a high failure rate among businesses, and banks can play a major role in *helping to rectify this...* 200,000 small businesses will start up with NatWest this year, and our major effort is to make sure they stay in business," he adds.

This shifting emphasis, of the bank as hand-holder for the small business, is based on a hard-headed strategy for the future.

"The banks realise that the *small business sector is a profit*able one - in any market you cannot hope to accrue profits just from established business alone," says Mr Ian Hinds, manager's assistant, small business unit, at Barclays.

Barclays currently lends some pounds £7bn to businesses turning over pounds 1m or less, *and pounds £3bn-£3½bn goes to* those with a turnover of £100,000 or less. "It is *those* businesses which make up by far the biggest volume of the bank's business customers," says Mr Hinds.

He describes these small businesses as the "bread and butter" of the clearing banks' business lending, but says: "There isn't anywhere near enough research being done into the small business sector."

With new businesses starting at the rate of at least 500 a week, the clearing banks agree that the problem for them lies in identifying which ones will succeed. Predicting future successes among small businesses would have profound implications for the banks.

Dr David Storey, an economist and statistician at Newcas*tle University, who has worked on such quantification of risk,* says: "All the banks are very keen on building up their own credit scoring system *for* small businesses - if they are able more accurately to judge risk, they are able to offer lower interest rates, which are an important part of their armoury."

With the exception of the Midland, however, the Big Four clearers deny having any form of credit scoring in place to *evaluate lending risk to small* businesses.

The banks stress that the discretion of the bank manager - albeit a better-trained manager than small businesses faced across the table a few years ago *- remains the predominant* factor in deciding whether to *ex*tend finance to a business.

Midland does have a system designed "to assess the financial viability of a business", but it does not like referring to it as a credit scoring system. Mr Stuart White, manager of the small business unit, stresses that the system begins by "assessing the individual as a person, not whether or not he is good as business... His track record, competence and personality as a whole are taken into account." Only then is a systematic method used by the bank manager *to consider the amount of* loan requested and the plans for repayment, says the Midland.

Methods of identifying future *successes in business* also continue to face the basic problem of being useless when it comes *to companies that are just* starting up.

But while they persist with research into what makes a business succeed, banks are also faced with the more immediate task of carving out a further share of a tremendously profitable market.

Equity funding remains a major problem for many small businesses, but the banks are moving cautiously towards the *provision of near-equity to* small firms. NatWest recently launched what it calls its capital loan scheme, which offers limited companies up to £200,000 with options attached to allow the bank to take shares *in the company at a later date.*

Its rivals claim the scheme is having a limited success, as many small businesses are reluctant to hand over any shares for fear of losing control over the business. But NatWest *maintains that it is responding* to demand, and Mr Jennings points out that small businesses are in a weak negotiating position in the early stages of their quest for finance.

The major clearing banks *show no signs of following* NatWest's lead however. "One thing which militates against banks getting into equity participation in any serious way is a lack of resources," says Mr Hinds.

Dina Medland

Corporate banking

Roles are reversed

THE DECLINE in the banks' traditional role as chief source of finance for the corporate sector - a process given the ugly name of "disintermediation" - is well charted, although it would be unwise to overstate its extent. There are plenty of companies which still depend heavily on bank overdrafts.

What is certainly true is that the old picture of the businessman trekking cap in hand to the bank manager is out of date. Indeed, on some financing deals, the willingness of banks to moderate their fee demands, in order to be associated with the right corporate name, suggests that the traditional roles have been reversed.

Tough-minded corporations have been able to cut back fees to the barest minimum. When industrial BTR raised a $1bn loan earlier this year, underwriting fees were among the lowest ever seen - a bank could earn only £8,330 for underwriting *£83.2m. The British banks fi*nally rebelled and opted out of the deal, but BTR's pulling power was enough to attract plenty of banks from outside the UK.

There are few companies with BTR's muscle, however, and most treasurers can remember the early 1980s when a co-operative banker was a friend indeed. *In the long run, most companies* know it is better not to push your luck too far. As John Robins, director of financial and management services at insurance broker Willis Faber, says: "We wouldn't shop around *to save a thirty-second of a per* cent. It's more important to have a good relationship with your bankers."

The last few years have forced the banks to be more inventive as corporate treasurers and finance directors have woken up to the opportunities provided by new financing instruments. Barclays, National Westminster and S G Warburg have been predominant in the field of multi-option facilities, for example, and the opening up of the sterling commercial paper market attracted intense competition as banks vied to issue paper for the best corporate names.

The spate of ambitious trans*atlantic corporate bids also* gave banks the opportunity to show that the creation of the new financial conglomerates offers real advantages for their corporate clients. County Nat West sold itself as an "all-sing*ing, all-dancing" bank to win the* mandate for Blue Arrow's cheeky - and ultimately successful - bid for the much larger Manpower.

As well as underwriting the £837m rights issue needed to finance the bid, County NatWest also provided $300m of back-up finance, part of which was used when Blue Arrow increased its offer to $1.3bn. That was a substantial amount of risk for one firm to take on and would probably have been *impossible* five years ago.

It is not just the loan departments of banks that have had to change. Foreign exchange departments, which until quite re*cently, knew only two products* - spot and forward exchange rates - have had to cope with a bewildering array of acronyms as option-based products became more widely-used in the wake of the successful introduction of currency option trading on the Philadelphia Stock Exchange.

Corporate customers also expect to get competitive rates and narrow spreads, and the spread of electronic technology gives them the *ability* to be just as professional as the bank foreign exchange dealers - indeed many top corporations have their own dealing rooms.

Interest rate cover is also a product increasingly in demand from companies, as illustrated when Grand Met arranged, through S G Warburg, interest rate swaps on $750m of debt incurred *as part of the finance for* the purchase of Heublein, the US-based producers of Smirnoff vodka.

A panel of 16 banks was invited to bid, over several days, for $25m tranches of debt with a *range of maturities. By fixing* the cost of so much of its debt, Grand Met was able to safeguard itself against the rise in rates which occurred later in the year.

Swaps are only one of a range *of products offered by banks,* with interest rate options and forward rate agreements probably the best known. Banks can use the thriving liquidity of the interbank market to offset the risks incurred; although whether the banking sector as a whole is absorbing too much *risk* through such off balance sheet instrments is a subject currently taxing the minds of the regulators.

The size of the interest rate swap market is now estimated at around $300bn a year and in this and many other areas, competition from US and other overseas banks is extremely fierce.

Philip Coggan

Pay and staff

Employers break ranks

IN LABOUR relations, 1987 rather than 1986 will be known *as the year of UK banking's big* bang. A muffled explosion could be heard as the Federa*tion of London Clearing Bank* Employers collapsed under the combined pressures of growing competition for staff and industrial action over pay.

This second bang was to some extent a product of the first. Deregulation, and its attendant growth in the number of financial institutions recruiting staff from London and the South-east, was another blow to the chances of the big banking employers sticking together in their dealings with employees.

The closure of a 19-year-old club with only three surviving members - Barclays, Lloyds and National Westminster - does not sound like a particularly significant event, yet the end of joint pay bargaining in UK banking has many implications for both employers and staff.

Most obviously, it means that the major clearers will be free to set out their own strategies for rewarding and retaining their employees. In recent times, each has had one hand tied behind its back as it has tried to fend off attempts by smaller competitors to poach its most promising workers.

In the first flush of freedom, there have been no dissenters from the view that this is a good thing. A period of calm reflection on the immediate results - increases of up to 158 per cent in London allowances, and an addition of 2 per cent by Lloyds to the federation's final 5 per cent pay deal - might lead to a different conclusion.

The next pay settlement at National Westminster is now due on January 1. Barclays and Lloyds will follow on April 1, and Midland will bring up the rear on June 1. With the NatWest already signalling that its staff can expect some reward for staying loyal this year, there are growing worries that a pay auction will develop over next year's crop of school-leavers.

It is not just the major clearers that are at risk. The federa*tion's annual pay deal has tradi*tionally been used as a benchmark for other settlements within the sector - particularly at the smaller UK banks - and some fear that its demise signals the end of an informal *system of pay control.*

There is little doubt that competition for staff at all levels is likely to continue. Not only is the number of people employed nationally in the finance sector growing, but banking employment is concentrated in the *South-east, where competition* for white collar staff between is increasing.

Thus the breaking point for the federation came when NatWest was held back from making the additions that it wanted to London allowances and bringing in a South-east allowance of £750. The significance for the bank was that some 33,000 of its 74,000 UK employees work in the South-east. At *Midland, the number* is 18,000 out of 45,000.

Midland followed NatWest's allowance increases after its own projections had predicted that it would face problems retaining staff in particular areas, such as the belt of towns flanking the M4 to the West of London. *Its* employee turnover level is between 12 and 15 per cent but approaches 20 per cent in *the more competitive areas.*

With NatWest signalling that staff can expect some reward for staying loyal, there are fears of a pay auction over school leavers.

What can the major banks do to avoid a continuing spiral of salary levels? *John Bond,* NatWest's personnel division general manager, suggests that part of the answer may lie in moves to*ward the individual* negotiation and reward policies of the smaller investment banks which have tempted away many clearing bank staff.

NatWest is planning a new pay structure for its 6,000 man*agers that will tie rewards more* closely to performance, and Mr Bond believes that the principle will eventually be extended to lower grades. The bank could then avoid being forced to raise general salary levels simply to *recruit and retain the best per*formers.

As far as the banking unions are concerned, the labour practices of the foreign and investment banks - where union recognition is the exception rather *than the rule* - are the *last* that the clearers should follow. They are already worried about the clearers' refusal to extend union recognition to their securities arms.

The difficulties faced by the Banking, Insurance and Finance Union (Bifu) at Midland Montagu typify why the union is facing an uphill struggle in making any significant inroads into the City following de-regulation. Midland has offered to consider recognising the union within Montagu if it recruits 30 per cent of the 2,100 staff, but it remains far from the target.

But extensive de-unionisation is as yet a peripheral worry for Bifu. A more immediate consequence of the collapse of the federation is that its major tactical weakness - relatively low levels of membership in the major clearers, compared with each bank's staff association or union - is likely to be further emphasized.

Bifu retained a relatively strong position within the joint pay bargaining structure, but this year's pay *dispute* has exposed the problems it faces in individual banks. When the Barclays Group Staff Union, representing 40,000 staff, called off its overtime ban, Bifu's 14,500 members were left with an unenviable burden *to shoulder alone.*

Those problems could only be solved by the merger with the BGSU, the NatWest Staff Association and the Lloyds Bank Group Staff Union, for which Bifu continues to press. Yet the collapse of the federation and the banks' move towards individual bargaining strategies makes that even less likely.

For the moment, the banking unions can relax in the momentum of pay pressures that have allowed them to pull off a relatively successful round of industrial action despite managing to achieve only limited disruption. The long-term future may be considerably more uncertain.

One other body has a natural interest in the collapse of the federation and the end of joint national pay bargaining in banking: the British Government. The move towards individual bargaining arrangements for banks is clearly in line with the aims of Mr Kenneth Clarke, *the former Pay*master-General.

On the other hand, the Government may look at the pay settlement of between 7.1 and 9.6 per cent it has meant for 46,000 Lloyds *staff,* recall how the fi*nance sector is among the lead*ers of the present pay push - and wonder whether it was such a good idea after all.

John Gapper

SECTION II – COMPANIES AND MARKETS
FINANCIAL TIMES
Monday September 21 1987

INTERNATIONAL BONDS

Large issues for Italy and Sweden pass a severe test

BY STEPHEN FIDLER IN LONDON

THE EUROBOND market came in for a severe test last week and by common judgment passed it. Two big issues, one raising $1bn of three-year money for Italy and one $350m of five-year funds for Sweden, were brought to market without dire consequence.

Both were for the right kind of borrower and priced sensibly at about 60 basis points above the US Treasury yield curve, enough to encourage switching into the new issues by holders of seasoned bonds.

While the results of this were encouraging, it remains to be seen whether over the longer term top-rated issuers will be able to continue to access the market.

Such issues are undoubtedly important to borrowers, but it is clear that even well-priced deals such as those of last week make little money even for the lead manager.

Since even the best of the bonds generally fall straight to a level equivalent to their fees, it means those firms lower down the pecking order, earning less than total fees, are sitting on an instant loss. This is particularly true if any of the underwriting commission is taken up in support of the issue.

That's fine when rising bond markets turn the subsidy into a trading profit, but not so good when the markets, as now, are going downhill. What is worse, dealers say their hedges of inventories of Eurobonds are increasingly ineffective because of the way yield spreads between Eurobonds and government bonds have widened.

Unfortunately for issuers and dealers, the profile of the buyers has changed. One syndicate manager at a European bank reports demand from his retail clients has dropped by two-thirds since early in the year.

The most significant buyers of bonds now, he suggests, are asset-hungry banks, which can gain a significant yield pick-up compared with short-term funding alternatives. But banks, reliant on deposit roll-overs, are not too dependable as long-term investors.

But the most important problem facing the bond markets seems to be the lack of demand for bonds among institutional investors and their contrasting enthusiasm about shares – the "equity cult."

This has an international dimension, but some illuminating statistics have been assembled by Mr Stephen Lewis, of the UK stockbrokers Phillips and Drew, who has been studying the behaviour of the UK investment institutions.

In 1980, according to Bank of England figures, 31.2 per cent of UK life assurance fund portfolios were held in the form of fixed interest securities, a figure which had dropped by 1984 to 27.2 per cent. Mr Lewis estimates that at the end of 1986, this had shrunk to 23 per cent.

The figures for private pension funds are even more dramatic. From 25.1 per cent held in fixed-interest bonds in 1980, some 16.6 per cent in 1984 and Mr Lewis estimates this had dropped to 13 per cent by the end of last year.

These institutions were net sellers of gilt-edged stock in the fourth quarter of last year and first quarter of this year. "There is only one precedent for this in living memory in a single quarter of 1974," he says.

The decline in the proportions has been partly involuntary, due to rising share values. However, "1986's fall in the fixed interest proportion was clearly voluntary. Institutions … could hardly wait to get the proportion down further," he says.

If there is hope for bonds, it is the premise that their fall from fashion must be based on the belief that there will not be a recession associated with a fall in inflation rates. Even if the combination is not the most likely forecast, there might be some sense for investors to insure against the possibility.

Meanwhile, as the chart shows, the appetite of former Eurobond investors for equity-related bonds continues formidable and on Friday, two more convertibles for UK companies were launched.

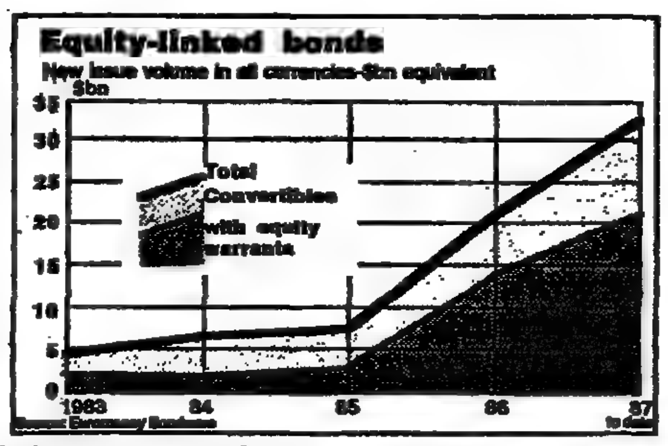
The two issues seem likely to revive the debate on these pre-emptive rights, under which UK shareholding institutions insist they get first shot at any issue of equity beyond a 2½ per cent limit. (There is a 10 per cent limit for vendor placings.)

Next, the UK clothing retailer, launched a £100m ($164m) convertible Eurobond as though it were a rights issue. European investors have undertaken to buy up to 70 per cent of the bonds, if the shareholders do not want to take them up. The rest have been conventionally underwritten in the UK.

London International Group launched a £50m convertible, but since it involved acquisition finance it could issue the bond as a conventional Eurobond.

Even given that vendor placings are generally achievable more cheaply than conventional rights issues, the differences in costs are quite significant. Next's issue pays 5¾ per cent coupon, for example, against 4½ per cent for LIG, and is more expensive in other ways.

Effectively, the difference can be looked on as the premium for guaranteeing the price while the rights issue is being made. But are the shareholders' the beneficiaries?



BNP unit plans issue to raise FFr1.36bn

By Our Paris Staff

COMPAGNIE d'Investissements de Paris, the quoted investment subsidiary of state-owned Banque Nationale de Paris, plans to raise FFr1.36bn ($226m) in new capital, just two months after its flotation on the Paris stock exchange.

CIP plans a one-for-three rights issue, which will involve the issue of 4m new shares at FFr150, each carrying a warrant to subscribe for a further share at FFr190 from the beginning of next year until the end of November 1990.

The first stage of the operation will therefore raise FFr599m of new funds, and the second stage could bring in another FFr759m if all the warrants are exercised.

BNP, which directly and indirectly controls 90 per cent of CIP, plans to take up its rights.

The CIP portfolio includes the main quoted shareholdings of the BNP group such as a 3.9 per cent stake in Cerus, the French holding company of Mr Carlo De Benedetti, and 6 per cent of the sugar and foods group St Louis.

The board said CIP's portfolio was worth FFr250 a share at the end of August, compared with FFr240 a share when it was floated in early July.

CIP received new capital from its parent earlier this year, before its flotation, but this money was quickly invested in new participations and the company had to sell off some of its bond portfolio in order to provide further liquidity.

The company brought together some of the major equity stakes held directly by the parent BNP bank and the larger holdings of Banexi, its investment banking and venture capital subsidiary.

INTERNATIONAL CREDITS

American Airlines seeks further $500m

BY ALEXANDER NICOLL IN LONDON

AMERICAN AIRLINES, which has raised two loans totalling $500m in the Euromarkets over the past two years, is returning for a further $500m through a revolving credit.

Bank of America, which led the previous two transactions, will be hoping to retain the franchise on the new deal. A number of banks have been asked, however, to make proposals and some are forming themselves into groups. Price competition will be keen.

The $300m deal arranged in 1985 was for seven years, last year's $200m facility was for six years, and the new revolving credit is expected to be for five years, with a facility for extension at the banks' option.

Both the previous deals had split margins, the first rising from 12½ to 17½ basis points after five years and the second rising from 17 to 22 after four years.

In Paris, Banque Nationale de Paris has been mandated to arrange a $600m multi-option facility for Saint-Gobain, the French industrial conglomerate. Five banks are believed to be co-arranging the deal but terms had not emerged by the weekend.

The deal is to be for five years, with a possible extension to seven, and is likely to incorporate margins over both Paris and London interbank rates.

Ireland is catching on to the European currency unit. On Friday an official was quoted as saying that the country plans an Ecu bond on the domestic market. Meanwhile Allied Irish Banks, a leading Ecu trader on the foreign exchange market and a member of the expanded Ecu clearing system, is to have an Ecu 100m Euro-certificate of deposit programme. Shearson Lehman Brothers International will be the sole dealer.

Shearson has also been added as a third dealer on a Eurocommercial paper programme for Forsta Sparbanken, which is being increased from $200m to $300m.

EUROMARKET TURNOVER
Turnover ($m)

Primary Market	Straight	Conv	FRN	Other
US$	2,290.9	321.9	18.4	[illegible]
Prev	1,511.7	[illegible]	[illegible]	5,614.9
Other	1,043.2	549.0	—	853.6
Prev	752.8	0.5	—	[illegible]
Secondary Market				
US$	23,555.9	2,581.4	11,374.8	[illegible]
Prev	[illegible]	1,704.2	7,870.9	4,782.3
Other	21,773.2	[illegible]	6,462.5	[illegible]
Prev	16,945.6	940.7	[illegible]	11,187.4

	Cedel	Euroclear	Total
US$	15,719.1	36,161.9	[illegible]
Prev	12,031.5	29,577.9	[illegible]
Other	10,869.2	35,219.6	[illegible]
Prev	14,280.1	[illegible]	[illegible]

Week to September 17 1987 Source: AIBD

Pressure for Frankfurt centre

BY HAIG SIMONIAN IN FRANKFURT

LAST WEEK'S statement by Mr Michael Glos and Mr Hermann Otto Solms that "a financial futures market must be set up as quickly as possible" in Frankfurt, undoubtedly came as music to the ears of West German bankers keen to boost the country's standing in the securities business and to prevent the drift of trading abroad, notably to London.

For the speakers were none other than two leading financial figures in West Germany's ruling coalition parties.

Their remarks showed that the campaign to set up a new German options and futures market, launched earlier this year, is beginning to gather political momentum as policy-makers drift back to Bonn for the new parliamentary session.

Politicians are essential if the scheme is to get off the ground. Legal changes, notably to the country's stock exchange law, as well as a clutch of other tax and investment measures, are key requirements.

By comparison, the DM60m ($33m) or so for computer hardware and software for the planned new market and for teaching German traders to become market-makers is a more straightforward matter.

The backers of the new venture are certainly pulling out all the stops. Mr Wolfgang Roeller, chief executive of Dresdner Bank and present chairman of the Federal Association of German Bankers, has been busy putting those views across. A private briefing last week showed Mr Roeller's justifiable enthusiasm for the project, stoked partly no doubt by his own background on the securities side. Even the press is being courted.

But politicians the world over are seldom renowned for their speed, while experience in the UK, and even the US – the home of futures and options – has shown they can be notoriously slow when it comes to so complicated and potentially emotive an issue. And Germany is not a country where a word like "speculation" is bandied about easily.

In a country where – so the old cliche goes – the big banks are supposed discreetly to hold the reins of power, it will be interesting to see how quickly the required legal amendments come about.

Higher taxes, weak television division erode net profits by 5.9% at John Fairfax

BY CHRIS SHERWELL IN SYDNEY

HIGHER TAXES and a weaker performance by the television division have cut net earnings for John Fairfax, the Australian media group in the year to June.

The company, which publishes the Sydney Morning Herald and the Melbourne Age, is controlled by the Fairfax family. Mr Warwick Fairfax is currently seeking to take the company private through a takeover offer.

The results showed a 13.7 per cent increase in overall sales to A$935m (US$683m) and a 9.1 per cent rise in pre-tax earnings to A$80.9m. But after-tax profits dropped 5.9 per cent, from A$44.8m to A$42.2m.

The group said tax expenses increased 33.4 per cent to almost A$38.5m because of the rise in corporation tax, fringe benefits tax and reduced claims for investment allowances.

The television division's contribution to profit showed a "severe decline," the group said. Programme costs rose and the Melbourne Channel Seven station, which was bought and sold during the year, showed a "small loss."

A decline was also reported from the Macquarie Broadcasting radio group because of high satellite costs.

Improved performances came from most of the group's print media operations – not only the Herald and the Age, but also the Australian Financial Review and the business and general interest magazines.

The group's extraordinary profits showed a handsome increase from A$21.8m to A$91m, thanks largely to a A$96m dividend from Australian Associated Press arising from the sale of shares in Reuters.

Costs associated with the acquisition of the Channel Seven station in Melbourne were treated as an extraordinary item, Funding costs were A$15.6m, and the loss was A$8m net of tax.

Directors said the result was satisfactory and announced an increased dividend, fully franked, of 9.25 cents, equivalent to 18.75 cents on pre-bonus issued capital. Last year's dividend was 12.5 cents.

SEB profits more than double in first half

By Our Paris Staff

SEB, the leading French producer of household electrical equipment, more than doubled its profits in the first half of the year and expects net earnings for the full year to rise by 30 per cent.

Pre-tax profits plus depreciation totalled FFr 170.4m ($28.3m) in the first six months, compared with FFr 79.3m in the same period of last year. Operating profits were two and a half times higher than last year at FFr 156.8m.

Mr Emmanuel Lescure, chairman, said the group's key products had all made headway. Tefal scales and Calor steam irons had both taken more than 50 per cent of the French market in the first half, while SEB had gained between 6 and 15 percentage points of market share with its kitchen processors, wafflemakers, coffee machines, portable ovens, chip-friers and toasters.

Sales in the US and Japan had increased by more than 40 per cent in local currency terms, Mr Lescure said, while in West Germany, SEB's third overseas priority, sales had remained flat.

In Italy, where the group decided to reorganise its distribution practices in order to reduce excessively long payment periods and had to take back some stocks, sales fell by 20 per cent. But Mr Lescure said this did not reflect a change in consumer demand for SEB products.

In total, overseas sales of SEB's subsidiaries rose by 3 per cent in Europe and by 30 per cent outside Europe, but sales to its agents fell by 12 per cent.

NEW INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Book Runner	Offer yield %
US DOLLARS							
Sankyo Aluminium ¶‡	70	1992	5	3¼	100	Daiwa Europe	3.250
Tokyo Rakutenchi ¶‡	25	1992	5	3¼	100	Daiwa Europe	3.250
Sekisui Jushi ¶‡	30	1992	5	3¼	100	Nomura Int.	3.250
Hodogaya Chemical ¶‡	50	1992	5	3¼	100	New Japan Secs.	3.250
Riken Vinyl Ind. ¶	35	1992	5	(k)		Yamaichi Int. (Eur)	
Italy ‡	1bn	1990	3	9	100½	CSFB	8.803
A. L. Williams Corp. §‡	70	2002	15	4½	100	Nippon Cantonale	4.500
World Bank (b)‡	750	1997	10	9⅞	99¾	Merrill Lynch	10.161
Jets II (c)†‡	55	1992	5	25bp	100	Mitsubishi Fin. Int.	–
Flash One (d)†‡	50	1992	5	21bp	100.1	Sanwa Int.	–
Nippon Credit Bank §	100	2002	15	(1¾)	100	Nippon Credit Int.	*
Nippon Credit Bank (e)§	50	2002	15	(1¾)	100	Nippon Credit (HK)	*
Sweden ‡	350	1992	5	9¾	101½	CSFB	9.381
Keppel Corp. §	75	1997	10	(2¾–3)	100	Morgan Grenfell	*
Cives VI (g)†‡	100	1992	5	23bp	100	Nikko Secs (Europe)	–
Stanley Electric ¶	100	1992	5	(3¼)	100	Daiwa Europe	*
CANADIAN DOLLARS							
Xerox Canada Fin. ‡	80	1992	5	11⅞	101⅞	UBS (Secs)	11.003
City of Vienna ‡	75	1992	5	11¼	101½	Morgan Guaranty	10.848
Ford Credit Canada ‡	100	1992	6	11⅝	101⅝	Goldman Sachs	10.938
AUSTRALIAN DOLLARS							
Mitsui & Co. Fin. Ser. †‡	50	1992	5	(a)	100.15	New Japan Secs.	–
NEW ZEALAND DOLLARS							
Denmark ‡	60	1989	2	17½	101½	Mitsui Fin. Int.	16.558
Group Bruxelles L'bert ‡	50	1990	3	17⅜	101½	Banque Paribas	16.598
D-MARKS							
Metallgesellschaft Fin. ¶‡	200	1997	10	6½	125	Deutsche Bank	3.495
Central Bk of Turkey ‡	200	1992	5	7	100	Commerzbank	7.000
OKB ‡	200	1992	5	5⅝	100¼	Deutsche Bank	5.566
SWISS FRANCS							
Iwatani Int. Corp.** ¶‡	70	1992	–	1⅛	100	Crédit Suisse	1.125
H'electrica Espanola **‡	150	1994	–	5⅛	100	UBS	5.125
Kowa Corp. ** ¶	30	1992	–	(1⅛)	100	SBC	*
Group Andre Perry §	25max	1995	–	5½	100	Banque Indosuez	5.500
Denmark Φ‡	50	1992	–	3	100	Chase Manhattan Bk	3.000
EDF **‡	100	1989	–	4	100	Crédit Suisse	4.000
FRENCH FRANCS							
EIB ‡	1.5bn	1999	12	9.90	98.04	Société Générale	10.190
DANISH KRONER							
Finland ‡	500	1994	7	10½	99⅞	Privatbanken	10.526
Nordic Inv. Bank (h)‡	400	1992	5	10¾	100	Merrill Lynch	11.036
ECUs							
Eurofima ‡	150	1992	5	8⅛	101½	CCF	7.782
STERLING							
TMC M'gage Secs 3 (f)†‡	100	2015	5–7	⅜	100	Salomon Brothers	–
Next Plc (h)§‡	100	2003	15¼	5¾	100	Salomon/Rowe & Pitman	5.750
London Int. Group §‡	50	2002	14½	4½	100	CSFB	4.500
Heron Int. Fin. ‡	50	1993	5½	11	101¼	Chase Inv. Bank	10.653
Leeds Permanent B. Soc. †‡	100	1994	7	(i)	100	Baring Brothers	–
YEN							
Nat. Bank of Hungary ‡	40bn	1997	10	5.3	99.65	Daiwa Secs.	5.440

* Not yet priced. ‡ Final terms. ¶ With equity warrants. § Convertible. † Floating rate note. Φ With currency warrants. ** Private placement. ‖ Currency-linked. (a) 3-month Australian bank bill rate less 45bp. (b) Launched on US domestic market. (c) 25bp over 6m Libor. (d) 21bp over 6m Libor. (e) Launched in Asia. (f) ⅜ over 3m Libor first 10 years, then ½ over 3m Libor. (g) 23bp over 6m Libor. (h) Issued initially by way of rights to existing shareholders. (i) 12½bp over 3m Libor years 1–3, minimum 16bp years 3–7. (k) Issue withdrawn. Note: Yields are calculated on AIBD basis.

Continental to divest its life insurance units

By Our Financial Staff

CONTINENTAL Corporation, one of the largest US property/casualty insurers, said it intended to divest its life insurance operations.

The life insurance companies, which may be sold individually or in combination, had a book value at June 30 of about $432m, and operating income for the first six months of 1987 of about $6.3m, the company said.

Mr John Mascotte, chairman and chief executive, said Continental's strategic plan called for developing leadership positions in selected market segments.

"Over the past five years, our life units have shown dramatic growth," he said. "We've concluded, though, that achieving leadership in today's life insurance market place would require disproportionate resources and take too long for us to achieve."

Goldman Sachs is to assist in the sale of the domestic life insurance operations while Salomon Brothers and Burns Fry have been retained for sale of the Canadian operation.

● IC Industries said its board approved the spinoff of its wholly owned subsidiary, the Illinois Central Gulf Railroad.

The company intends to concentrate its efforts on consumer goods and services, and on aerospace and commercial products.

The company said the railroad unit has been streamlined in the past several years to a core system of about 3,000 miles from 9,600. It serves markets from gateways at Chicago, St Louis, Memphis and New Orleans.

East Asiatic back in the black after strong second-quarter earnings

BY HILARY BARNES IN COPENHAGEN

EAST ASIATIC, the international trading group, made a first-half pretax profit of DKr67m ($9.64m), compared with last year's DKr79m loss, and a profit for the whole of 1986 of DKr385m.

The interim report said a strong second quarter more than compensated for a weak initial quarter, when earnings and sales were below the budget.

First-half earnings and sales exceeded expectations. The positive trend is expected to continue in the current half, but rising tax liabilities and minority interests will depress the net result for the year as a whole to about DKr300m against DKr311m in 1986.

First-half sales increased by 7 per cent, to DKr 7.34bn, but in dollar terms the increase was 26 per cent.

● Baltica, the Danish insurance and banking group, plans to raise about DKr 300m through a share issue. Later it will seek a listing on the London stock market.

A one-for-one scrip issue is also planned, the company said when announcing an increase in first-half net earnings from DKr 140m to DKr 152m. The finance division increased earnings from DKr 4m to DKr 20m.

Baltica's equity capital increased over the period by DKr 258m, to DKr 3.84bn, on a balance sheet total of DKr 30.37bn.

Earnings in the insurance group in the second half are expected to be better than last year's while the finance group's second-half earnings will be in line with earnings in the first half, the company said.

Gambro seeks SKr719m with new rights issue

BY KEVIN DONE IN STOCKHOLM

GAMBRO, the Swedish manufacturer of kidney dialysis and intensive care equipment, is to raise SKr719m ($113m) through a two-for-five rights issue.

The new equity is to be used to help finance the SKr1.2bn acquisition of the Swiss-French Hospal group, Gambro's biggest European rival.

The 6.5m new shares will be priced at SKr110 apiece compared with a recent market price of around SKr136.

In a first stage the shares will be issued to Sonesson, the wholly-owned subsidiary of Volvo, the Swedish automotive group which through Sonesson controls 32 per cent of the equity and 47 per cent of the votes in Gambro.

Sonesson, which initially purchased Hospal from its joint owners Sandoz of Switzerland and Rhône Poulenc of France in order to facilitate the takeover, will then offer 4.47m of the shares to other Gambro shareholders on a pro-rata basis.

Hospal produces renal care products in France and Italy with marketing through wholly-owned subsidiaries in ten countries. It had sales last year of $120.4m compared with Gambro's sales of $252.3m.

Philippine deal for Kenmare

By David Blackwell

KENMARE RESOURCES, the Dublin-based gold exploration company, has formed a joint venture with Philippines National Oil Company to look for gold in the Philippines.

The venture is to be owned 40 per cent by Kenmare, 40 per cent by PNOC and 20 per cent by private Filipino investors. The areas to be explored total 2,000 square kilometres and are on the islands of Negros, Leyte and at Manito in southern Luzon.

Kenmare is putting £750,000 ($1.24m) into the venture to finance the exploration and provide management and technical expertise. PNOC will contribute the venture's back-up services, including offices, transportation and drilling rigs.

S&P widens its securities ratings net

STANDARD & Poor's, the US rating agency, said it will rate securities backed by corporate bonds and will apply its new guidelines retroactively to all issues sold this year, AP-DJ reports from New York.

S & P's action follows the issuance of similar guidelines by Moody's investors service earlier this month.

The difference in approach between the two agencies is that Moody's will not rate any issues retroactively, meaning the first deal to come under its scrutiny is likely to be Imperial Savings Association's $100m offering due later this month.

Using corporate bonds as collateral for the triple-A-rated securities offerings, sold mostly by thrift institutions, has been controversial because many investors are jittery about the prospect of the inclusion of volatile high-yield "junk bonds."

Until now, collateralized bonds have generally been backed by agency mortgage-backed securities or treasuries, but many thrifts now have substantial non-mortgage assets, particularly junk bonds, and they want a way to use those assets for collateralized borrowings.

While all corporates are eligible for inclusion under the two rating agencies' guidelines, it is expected that a high percentage will be junk bonds.

INTERNATIONAL CAPITAL MARKETS

US MONEY MARKET RATES (%)

	Last Friday	1 week ago	4 wks ago	12-month High	12-month Low
Fed Funds (weekly average)	7.29	7.17	6.70	11.34	5.71
Three-month Treasury bills	6.42	6.34	6.08	6.41	5.01
Six-month Treasury bills	6.68	6.47	6.23	6.70	5.06
Three-month prime CDs	7.45	7.44	6.78	7.50	5.61
30-day Commercial Paper	7.25	7.32	6.53	7.70	5.65
90-day Commercial Paper	7.38	7.45	6.65	7.43	5.57

US BOND PRICES AND YIELDS (%)

	Last Fri.	Change on wk	Yield	1 week ago	4 wk. ago
Seven-year Treasury	94	−0¼	9.19	8.14	8.34
20-year Treasury	97⅝	−0⅝	9.64	8.62	8.56
30-year Treasury	93¾	−0⅝	9.56	8.44	8.47
New 10-year "A" Financial	n/a	n/a	10.25	10.25	9.55
New "AA" Long utility	n/a	n/a	10.75	10.75	9.95
New "AA" Long industrial	n/a	n/a	10.65	10.60	10.05

Source: Salomon Bros (estimates).

Money Supply: In the week ended September 7 M1 fell by $4.7bn to $746bn.

NRI TOKYO BOND INDEX

December 1983 = 100	Performance index 17/9/87	Average yield (%)	Last week	12 wks ago	26 wks ago
Overall	134.46	5.22	134.41	139.25	138.05
Government Bonds	134.70	4.86	134.59	141.02	139.46
Municipal Bonds	133.86	5.96	133.89	139.06	138.81
Government-guaranteed Bonds	134.65	6.05	134.69	139.87	139.84
Bank Debentures	132.25	4.74	132.13	134.05	132.62
Corporate Bonds	135.07	5.67	135.08	137.51	136.33
Yen-denominated Foreign Bonds	138.34	6.45	138.78	139.51	136.85
Government 10-year†	−6.18	—	6.29	4.54	4.83

† Estimated par yield.

Source: Nomura Research Institute.

FT/AIBD INTERNATIONAL BOND SERVICE

US DOLLAR STRAIGHTS	Issued	Bid price	Chg on week	Yield
ABN Bank 8½ 92	150	98	+0⅛	9.14
Aetna Life & Cas 7¾ 16	200	90⅝	+0⅛	8.67
AHFC O/S Fin 11¼ 94	100	98½	−0¼	12.06
AIDC 11 89	75	101⅞	0	9.55
Alcoa Australia 11 92	80	101¾	−0¼	10.62
[illegible]				
Nova Scotia 11¾ 91	100	101¼	0	11.28
NSW Treasury 11¼ 90	150	104½	−0⅝	9.66
Olympia & York 8¾ 96	435	86⅞	−0¼	10.60
Ontario Hydro 10¼ 90	250	101⅞	−0⅞	9.38
Ontario Hydro 11¼ 89	200	104	−0⅛	9.18
Ontario Hydro 11⅝ 94	200	106½	−0⅛	10.16
Ontario Hydro 11¾ 90	200	105⅞	−0⅛	9.45
Ontario Hydro 13⅛ 91	100	111	−0⅛	9.54
Ontario Hydro 14⅞ 89	150	107⅞	−0⅛	9.15
Ontario Hydro 15 92	150	119¾	−0⅛	9.83
Pacific Gas & El 12 00	75	107⅞	+0¼	10.90
Penney J C 12¾ 91	100	106½	+0¼	10.68
Pepsico Capital 8⅝ 91	100	97½	−0⅛	9.20
Pepsico 7⅞ 93	200	89¾	−0¼	9.96
Petro-Canada 7¼ 96	200	82⅝	−0⅝	10.36
Philip Morris 9⅞ 98	200	96⅞	−0⅝	10.44
Postipankki 11¼ 90	75	103½	−0⅞	9.62
Procter & Gam 10 95	150	98⅞	0	10.21
Pru Rlty Secs 0 99	365	30¼	−0⅝	10.97

	Issued	Bid price	Chg on week	Yield
Qantas Airways 8⅝ 96	97	[illegible]	[illegible]	[illegible]
Quebec Prov 13 90	150	107⅞	[illegible]	[illegible]
Queensld Gvt 11⅛ 89	100	103⅞	[illegible]	[illegible]
Ralston Purina 11¾ 95	150	104	[illegible]	[illegible]
Reynolds R. J. 10¼ 93	100	100	[illegible]	[illegible]
Richardson-Vicks 11⅞ 95	125	105	[illegible]	[illegible]
Rockwell Int 9⅞ 90	200	101	[illegible]	[illegible]
[illegible]				
Woolwich Equit ⅛ 95 £	200	99⅝	0	10⅜
Zentral Und Kom ⅜ 91	30	99⅝	−0⅛	7⅜

CONVERTIBLE BONDS	Issued	Bid price	Chg on week	Prem
American Bankers 5⅞ 01	70	93¾	−⅞	42.06
BET 6⅞ 01 £	65	121	+3	−4.29
Canon 3 00	100	144⅞	−3⅞	−1.03
Citizen Watch 3 00	50	161	+14¾	−6.03
Eastman Kodak 6⅛ 01	300	129¾	−⅞	−2.01
Elders UK 5 97	75	135⅝	+6¼	−16.96
Fanuc 3¼ 98	80	295	+9	−0.43
Fujitsu 3 99	100	197	+4½	−1.02
Gibraltar Savings 7⅞ 06	100	86	−1⅞	25.75
ITT 4¼ 87	50	104⅞	−2⅞	−2.77
IU Intl Corpn 6¼ 2002	75	100⅞	−⅞	−12.29
Lorimar-Telepics 6 01	100	86	0	81.05
Newmont Mining 7 01	100	123¾	−3⅞	1.87
Nippon Seiko 3¼ 99	70	177⅞	0	−0.35

	Issued	Bid price	Chg on week	Yield
IBM 6¼ 96	300	116¼	−⅛	−3.40
Rockefeller Centre 0 00	152	25⅞	+⅛	−49.87
Southwest Air 6¼ 98	35	86⅞	−⅛	66.95
Swiss Bank Corpn 6¼ 90	120	150	−2	−4.79
Texaco Capital 11⅞ 94	900	103⅞	−3⅞	38.30
Toshiba Ceramics 3 00	50	146	−3⅞	−4.19
Xerox Corpn 5 88	75	96⅝	+⅛	80.16

YEN STRAIGHTS · LUXFR STRAIGHTS · D-MARK STRAIGHTS · SWISS FRANC STRAIGHTS · CANADIAN DOLLAR STRAIGHTS · ECU STRAIGHTS · AUSTRALIAN DOLLAR STRAIGHTS · STERLING STRAIGHTS · FLOATING RATE NOTES · EQUITY WARRANTS: [illegible]

		Issued	Bid price	Chg on week	Yield
Sumitomo Corpn	24/1/91	[illegible]	[illegible]	[illegible]	[illegible]
Toray Industries	10/12/90		99¾	+8½	8.79
UNY	17/6/91		18⅝	+0⅝	96.32

BOND WARRANTS	Expiry date	Bid price	Chg on week	Yield
Aegon Ins 11⅞ 92	15/2/88	12⅝	0	10.13
Citicorp 8 96	1/10/88	5	0	7.92
Credit Suisse (Panama)	13/2/92	58	0	10.26
Den Norske Crd 8⅝ 96	8/8/89	7	0	8.13
Denmark 12¾ 92	31/1/90	80	0	10.35
Finnish Exp Cr 12¾ 91	21/11/89	89⅛	−0⅝	10.18
General Elec Crd 12 94	15/11/87	35	0	11.24
McDonalds 11¼ 94	5/1/89	12½	0	10.81
Mitsubishi Fin 12⅝ 91	8/11/89	79⅞	0	10.16
Nordic Inv Bank 7⅞ 96	30/10/91	6⅛	−1⅛	7.77
Westpac Bankg 12⅝ 92	31/1/90	78⅛	0	10.55
Weyerhaeuser C 11½ 90	15/11/87	25⅝	0	10.06

STRAIGHT BONDS: Yield to redemption of the mid-price. Amount issued is expressed in millions of currency units except for yen bonds, where it is in billions. FLOATING RATE NOTES: US dollars unless indicated. Margin above six-month offered rate (‡ three-month; § above mean rate) for US dollars. C.cpn=current coupon. CONVERTIBLE BONDS: US dollars unless indicated. Prem=percentage premium of the current effective price of buying shares via the bond over the most recent share price. WARRANTS: Equity warrant prem=exercise premium over current share price. Bond warrant ex yld=exercise yield at current warrant price. Closing prices on September 18.

US MONEY AND CREDIT

Dollar worries cut rally short

AT ONE point last week, U S credit markets seemed poised to shake off the pall that has weighed on bond prices for more than a month.

The impetus came late on Thursday with news of a breakthrough in congressional efforts to repair the Gramm-Rudman-Hollings law. This is supposed to balance the federal budget but was last year crippled by an adverse ruling of the Supreme Court. In a late afternoon spurt in response to the news, prices of 30-year Treasury bonds rose by more than a point.

But this promising little rally was short-lived. On Friday, the markets returned to their old preoccupation with the dollar, which came under pressure on overseas markets when a Japanese newspaper reported that the finance ministers of the Group of Seven industrial countries would defend the dollar exchange rate but only at a lower level.

This rumour might have been designed to drive foreign investors—who are the marginal buyers of US government bonds—out of the market. Bond prices gave up their Thursday gains and a bit more as traders decided to hedge a surfeit of stodgy new corporate issues by going short of the government market. The Treasury 8⅞ per cent bond of 2017 ended down for the fifth consecutive week, off ⅝ of a point to yield 9.56 per cent.

Last week was a further reminder that the foreign exchange markets are running the credit-market show. News from other quarters, whether from Washington, the Federal Reserve or the real economy, was uniformly good.

By the end of the week, the markets were increasingly confident that both houses of Congress will agree, and President Reagan will sign, new legislation to refit Gramm-Rudman for its task of balancing the national books after the Supreme Court struck down its programme of automatic spending cuts.

But as so often with the federal budget, less often means more: the $23bn in spending cuts set down for next year will not prevent the budget deficit increasing over this year's expected out-turn of $160bn. The goal of balanced budget has been pushed even further into the distance, from 1991 to 1993, with the deficit targets made ever larger and easier to hit on the way.

Source: Technical Data

The agreement merely showed, says Mr Henry Kaufman of Salomon Brothers, "that a palatable solution to the fundamental problem still has not been found." But it was better than no agreement at all.

The economy also looked promising. Having got into a fine state about the inflationary potential of supposed capacity and labour shortages in a booming economy, the markets were presented with data that showed a much weaker picture.

Industrial production rose a mere 0.3 per cent in August, housing starts fell in the face of higher mortgage rates and the 1.3 per cent rise in retail sales could be read as a result of Detroit's cheap financing for car buyers.

Even Ford's deal with the United Auto Workers last week was less generous in wage terms than the markets had feared. While second-quarter gross national product growth was revised a bit upwards to 2.5 per cent on Friday, the figure for inflation came down to 4.1 per cent.

Meanwhile, the Fed seemed to be doing all in its power to prevent a rise in short-term interest rates such as Fed funds, which is the rate at which banks lend reserves to one another overnight. There had been fears that corporate tax payments would drain reserves out of the banking system, thus nudging rates upwards. But the Fed revealed on Wednesday that it had bought a record $4bn in notes and bills, providing liquidity in an exercise known as a "coupon pass."

If the currency were stable, the markets would have no difficulty making a case for buying US government bonds, particularly at the short end where a steep yield curve has produced some attractive-looking prices—even for those who fear inflation of over 5 per cent. Provided Congress acts in time to raise the federal debt ceiling to allow the auctions to go ahead, the market will this week be getting just such a buying opportunity, with an offering of $23.3bn in two-, four-, and seven-year notes.

But the credit markets will also be waiting anxiously for the meeting of the G7 finance ministers in Washington on September 26. Last week's rumour that the target range for the dollar would be reduced to Y130-150 from Y140-Y160 did not amount to much: who ever said that central bankers are defending a range of Y140-Y160 in the first place?

None the less, foreign exchange traders may well start probing to find where the support levels are. If they succeed in driving the dollar down, long yields may very well go into double figures.

* * *

The following economic information is due for release this week, along with the median forecasts of more than 30 economists as surveyed by Money Market Services of Redwood City, California:

- Personal income and expenditure in August, due today at 10 am. The consensus estimate is an increase of 0.6 per cent in personal income and of 1 per cent in consumption.
- Consumer prices for August due on Wednesday at 8.30 am. The median estimate is for an increase of 0.3 per cent.
- Durable goods orders for August, due at the same time. The median estimate expects a rise of 0.5 per cent, although the range is wide.

James Buchan

UK GILTS

Favourable sentiment for Bank auction

A CURRENCY in demand, and good news on inflation, the balance of payments, public borrowing and bank lending: what more could the gilt-edged market have asked for as it approached this Wednesday's £800m auction for long-dated stock?

After fretting for weeks at the supposed over-heating of the economy, the market felt convinced on Friday that these fears had been misplaced — or at least, that the return of base rates up to 10 per cent had been a sufficient response to economic conditions and that no further rise was likely.

As a result, sentiment going into the Bank of England's second experimental US-style auction is far better than had been expected.

Friday's 1¾ point rally came on news that bank lending rose £2bn in August. Though its pace over the past six months is still quite fast, the £4.9bn July surge now seems confirmed as an aberration linked to the Stock Exchange settlements crisis and to switches into bill financing from commercial paper.

The market's gloom had already been partially lifted by news that, although manufacturing output has been rising fast—6.1 per cent above its year-ago level in July—this has been achieved through productivity gains, with earnings growth relatively restrained. Labour costs rose only 1.7 per cent in the year to July. "These figures help to confirm our view that there are no inflationary pressures in the pipeline and that inflation will fall to 3.7 per cent by the end of the year and average 3.6 per cent in 1988," say analysts at James Capel.

Further good news came with the upward revision of invisible earnings in first half 1987, turning the current account into surplus—and also automatically improving the preliminary monthly current account figures for the coming months starting with Thursday's data, expected to show a visible deficit of around £850m but a current account deficit of only about £150m.

Add to that the likelihood that the supply of new gilts will remain very modest: the public sector borrowing requirement was only £1.4bn in the first five months of the fiscal year. Some economists, such as those at Morgan Grenfell, are still treating this cautiously because they say it reflects front-loading of privatisation receipts but others are expecting a PSBR of £2bn or less compared with the official £4bn projection.

Reflecting this, the Bank of England is keeping the auction to only £800m. It also helped sentiment by tacking the auction stock on to the existing 9 per cent of 2008, which plays along with international investors' current desire to own liquid issues.

The when-issued market price for the part-paid stock began on Tuesday night at 52⅞ and by Friday night it was at 55⅞, with dealers reporting a broad spread of institutional, foreign and retail demand.

Lest one should get carried away in this euphoria, it is worth remembering that it remains a dismal time for fixed income markets worldwide. They tend increasingly to move in tandem with each other.

Arguing that liberalisation, cross-border dealing and disinflation have tended to create more of a single international bond market, Warburg says the closer integration and the search for exchange rate stability have produced greater linkages between bond market movements.

Three factors seem likely to limit demand for gilts and even to suggest that last week's rally may have taken the market somewhat ahead of itself. The first is that, although base rates seem unlikely to rise, they seem equally unlikely to fall in the foreseeable future. Scope for further gilt gains is therefore restricted especially at the short end.

Secondly, though the conomic background is supporting sterling and should therefore encourage foreign demand for gilts, the pound seems officially restrained from rising above DM 3.

Thirdly, a further improvement in gilts probably implies that US and UK yields will "cross." Some economists feel that this is an important psychological barrier which will limit gilt gains, while others do not see it an an impediment. "There isn't any reason why gilts shouldn't stand on their own," says Stephen Lewis of Phillips and Drew.

Alexander Nicoll

UK COMPANY NEWS

Stanhope coming to USM with £200m valuation

BY MARTIN DICKSON

Stanhope Securities, the private property development company headed by Mr Stuart Lipton, is planning a flotation on the Unlisted Securities Market next month, which is likely to value it at between £180m and £200m.

Mr Lipton, 45, is widely regarded as one of the most imaginative of British developers and Stanhope is involved in some of London's leading development projects. Its net assets are thought to be around £100m.

The company will join the USM because it does not yet have the five year profit record necessary for listing on the main market. The flotation, which is being handled by S. G. Warburg, will be through an offer for sale, possibly a tender.

Stanhope is partner to Mr Godfrey Bradman's Rosehaugh group in the large Broadgate office development at London's Liverpool Street station. Among other projects, it is linking up with the Berkeley House group to develop the Brunswick power station in docklands. It also has project management contracts for the Paternoster Square development, at St Paul's Cathedral, and Stockley Park, the large development near Heathrow airport.

Mr Lipton was a founder member of Stockley, the property company he set in 1984 with Mr Elliott Bernherd and Mr Jacob Rothschild to take over the development of the Heathrow site. The group was sold last summer to Mountleigh, the property company headed by Mr Tony Clegg.

MBr Lipton began his career as a property agent and in 1971, with Mr Geoffrey Wilson, set up Sterling Land, which was sold two years later to Town and City. Three years later the two men set up Greycoat, which became a pioneering developer. Its projects included the ultra modern Finsbury Avenue office scheme in the City and the Victoria Plaza complex over London's Victoria station. But in 1983 Mr Lipton surprised the property world by leaving Greycoat to work on his own.

Mountleigh decision on Storehouse this week

By Martin Dickson

Mountleigh, the property group headed by Mr Tony Clegg, is expected to announce by the en dof this week whether or not it is launching a takeover bid for Storehouse, the retailing chain headed by Sir Terence Conran.

However ,the indications yesterday were that Mountleigh was still working on details of the financial package to support any bid. The company is understood to be negotiating a large line of credit from a number of lenders, led by Shearson Lehman, the US securities house. Meanwhile it emerged at the weeken dthat Lazards, the merchant bank, has taken over leadership of the team which is advising Mountleigh on the possibility of a bid. The Lazards group is headed by Mr Nicholas Jones, who recently joined the bank from Schroder Wagg.

Mountleigh is also being advised by Phillips and Drew, the stockbroker, which it has used as corporate finance adviser in the past.

The group is under pressure from the Takeover Panel to make an early announcement. It was at the insistence of the Panel that Mountleigh revealed on August 13 that it was considering a bid for Storehouse. The Panel will not want further uncertainty to surround Storehouse for a long period and by the end of this week Mr Clegg will have had six weeks for "consideration."

Mountleigh has made clear that any bid for Storehouse would be designed to break up the business. The indications from the company yesterday were that it was not yet seeking out potential buyers for the various parts of the business, though that had not stopped others from approaching it.

Last Friday Sir Terence announced a shake-up of top executives at Storehouse and the resignation of two leading figures in the company, Mr Denis Cassidy, deputy chairman and chief executive of British Home Stores, and Mr Colin Williams, assistant managing director of BHS.

MAI shares spurt on Saatchi link

By Clay Harris

Shares in MAI, the money broker and outdoor poster contractor, rose 20p on Friday to a record 704p as it became the latest cmpany to have its name associated with the ambitions of Saatchi & Saatchi to break into the financial services sector.

MAI indicated that there had been no recent contact between it and Saatchi, although the advertising and business services group is believed to have suggested such a link to MAI three years ago, when the approach was spurned.

Saatchi, meanwhile, was not believed to be in serious discussions with any potential partners in the wake of the rebuff of its overtures by Hill Samuel, the merchant bank.

At Friday's closing price, MAI had a market value of £451m.

Baker Harris pays £6.5m for West End surveyors

BY PAUL CHEESERIGHT, PROPERTY CORRESPONDENT

Baker Harris Saunders, the chartered surveyors with a strong practice in the City of London, is using its paper to make a £6.5m takeover of Bailey, Posner and Partners, a firm of London West End surveyors.

This is the first major takeover Baker Harris has made since it received a market quotation last October. In July, however, it acquired Alan G. Hood, a private company, for the paper equivalent of £328,000.

These diversifications out of the City and into the West End were foreshadowed at the time of the market listing.

The immediate price being paid for Bailey, Posner is £4.07m and this is being satisfied by the issue of 1.049m new ordinary shares and 2.7m convertible deferred shares of 10p each to be issued at par.

Convertibility depends on the profits performance of Bailey, Posner between now and April 1989 but the total value of the ordinary shares on conversion will not exceed £2.7m, thus bringing the maximum price Bailey, Posner up to £6.5m.

The Bailey, Posner partners will retain 494,107 of the new ordinary shares, while Rowe and Pitman, the stockbroker, is placing the balance with investment clients.

Bailey, Posner had turnover of £630,000 in the year to last May and made a net profit of £234,000. During the year to last April, Baker Harris had pre-tax profits of £2.01m. Yesterday its share price moved 15p higher to 380p.

Dinkie Heel ahead

Dinkie Heel, maker of footwear components, increased pre-tax profits from £22,000 to £50,000 in the first half of 1987.

Turnover, at £1.61m (£1.55m) was below the board's expectations, but the current level of orders was satisfactory and prospects were brighter for the second half.

After tax of £17,000 (£7,000) earnings per 5p share were 0.35p (0.16p). The interim dividend is unchanged at 0.2p

F.T. Share Information

The following securities have been added to the Share Information Service:

American Daleco Technologies (Section: Canadians).
American Lightwave Corporation (Canadians).
Brent Walker 6pc Cnv Cum Red Pref (Leisure).
Corporate Estates Properties (Property).
Danbus Resources (Canadians).
First Spanish Investment Trust (Investment Trusts).

Mike Smith on the rapid growth of Scottish Heritable Trust

Strength from diversity

IT HARDLY sounds like the ideal recipe for corporate credibility.

Take Britain's largest firework company, add the world's biggest oriental carpet wholesaler and mix with a liberal sprinkling of property, building, hospital equipment and even thermal underwear.

Call the concoction the Scottish Heritable Trust — a name which relates to only about a tenth of the business—and the resulting fare seems unlikely to inspire a rush of fund managers and stockbrokers' analysts to your door.

Mr Robin Garland, SHT managing director, admits the mix of businesses can cause confusion for the casual observer. None the less, shares in the company carry a healthy rating and an increasing number of people in the City are beginning to take note of it.

The growing interest stems from a dramatic growth in SHT's size. In the five years since Mr Garland took over, market capitalisation has risen from £3m to more than £110m and annual pre-tax profits have been lifted from £143,000 to £6.2m last year.

But like all acquisitive companies—SHT has purchased more than 20 companies since 1982—it is judged by earnings per share growth. Following last week's interim results these are expected by analysts to reach 17p this year (assuming profits of £10m) against 7.2p in 1983 (the 0.3p in 1982 was unusually depressed).

Mr Garland may have expected growth like that when he took over SHT but he would have been hard-pressed to predict the way the group has developed.

He had been attracted to SHT because expansion at his private family business, the sand and gravel company Claxton and Garland, was limited by having no shares with which to make acquisitions. "We needed our own currency, which was a public quote," he says. "In SHT we found a company of the right size and shape and one where we could get management control."

SHT was already involved in oriental carpets and property, including "heritable" flats in Glasgow which it lets and sells and from which it derives its name. But when in 1983 SHT bought Claxton and Garland and then in 1984 launched a bitterly contested takeover battle for Hoskins and Horton, a holding company also with interests in quarrying, it looked as though increasing emphasis would be placed on sand and gravel. It has not happened like that at all.

During a successful takeover battle for Hoskins Mr Garland was offered £5m for Hoskins' quarry interests and he says the price was too good to refuse. That left SHT with the original Claxton sand and gravel business which, though increasingly profitable, had a small market share. SHT likes to be in markets where it can exert influence, so acquisitional growth has been targeted elsewhere.

Another of SHT's biggest moves was similarly unpredictable. Standard Fireworks, purchased for £8.5m just over a year ago was brought to Mr Garland's attention through one of SHT's biggest shareholders who considered MY Dart, the industrial holding group, was taking over the pyrotechnics company at too cheap a price.

"We looked at Standard because it was in Yorkshire (SHT is based in York), says Mr Garland. "It was way out on a limb for us but we thought it had good potential for strong organic growth."

The entry at the end of last year into US housebuilding was more logical as SHT already has a strong building division in the UK. Even here, however, chance played a part in the decision.

SHT had recruited Mr Nevill Platt, a former banker, to run its textile plant in New Hampshire. "The job was not big enough for him so we designed a job in which he would also look for acquisitions in the US," says Mr Garland.

Mr Platt has a wide brief. SHT is much less concerned with synergy than other companies and even most conglomerates. It is happy to spread its net wide and move into unusual areas.

Robin Garland, managing director of Scottish Heritable

When making acquisitions SHT looks for companies in growing niche markets where managements can achieve strong growth independently but who will benefit from clearly defined targets on cash flow, profits and turnover which are set in conjunction with group headquarters.

And like other conglomerates it places emphasis on the type of people running its subsidiaries. The group's central staff consist of just 14, against a total workforce of about 2,000, so local management has to be strong.

SHT argues that its diversity is its strength. If one division suffers from a downturn the group can balance the resultant loss of growth from expansion elsewhere. Mr Garland says this means that, though SHT is unlikely ever to be a star performer, it will always achieve above-average growth.

This year's slow performers will include the pyrotechnics division which is unlikely to improve dramatically on the £727,000 of pre-tax profit it made last year. Standard sees long-term potential through expanding the £15m-a-year UK fireworks market into occasions other than November 5 and through transferring technology from Brock's Fireworks, which it bought earlier this year. But for the next 18 months to two years progress will be restrained by the disruption caused by the changes.

SHT will also be hard-pressed to improve this year on the £330,000 operating profits of the engineering division, which makes equipment for hospitals and offices as it is suffering from a dearth of orders from the DHSS. And the immediate outlook for the textiles division looks flat.

Against that can be set continued strong growth from carpets, which is the biggest division and last year boosted profits by more than 50 per cent, and from property. Significant first time contributions should also be made by the US housebuilding interests which include Haven Homes and 30 per cent of North American Housing Corporation. Both manufacture pre-fabricated homes, 90 per cent of which are made in factories, and the market is expanding.

Predicting where SHT goes next is never easy. Mr Garland says the group has plenty of organic growth and does not need acquisitions to extend the earnings per share growth record it has achieved over the past few years.

Observers think it is unlikely that SHT will end its spending spree. With gearing close to 50 per cent it may be reluctant to make sizeable cash acquisitions. But with its prospective price/earnings multiple at about 17 there could be scope for paper purchases, particularly in the US where it has been picking up companies with exit multiples in single digits.

If SHT ever did need to make a large share issue then managers and analysts could perhaps expect a call from any of three well-known industrialists—Sir Ian MacGregor, Mr Richard Boddy and Mr Norman Ireland.

SHT appointed the trio to its board earlier this year. As well as providing advice and experience, they also have a role to play in spreading the Garland gospel that SHT is more than just a diffuse colection of unusual companies.

OPERATIONAL ANALYSIS

	Turnover 1986 £000	Turnover 1985 £000	Profit before tax 1986 £000	Profit before tax 1985 £000
Floorcoverings	30,309	17,907	3,172	2,019
Property invest. sales	—	—	1,209	274
Rents and at sales	1,613	929	830	404
Engineering	6,404	6,083	330	728
Building, quarrying	4,150	3,013	821	589
Textiles	18,385	—	229	—
Pyrotechnics	6,877	—	727	—
Other activities	2,347	1,831	†15	†203
Total	70,085	29,744	7,303	4,011

† Loss.

BOARD MEETINGS

TODAY

Interims:— Antler, Beatson Clark, British Syphon Industries, Connells Estate Agents, East Lancashire Paper, Kellock Trust, Kleinwort Benson Lonsdale, Marshalls Universal, Morgan Crucible, Ransomes Sims and Jefferies, Spring Ram, Sumit, Tarmac.

Finals:— Armstrong Equipment, China and Eastern Investment, Ernest Green.

FUTURE DATES

Interims:—

Abbey Life	Oct 14
Ashley (Laura)	Sept 30
British Fittings	Oct 6
Brooke Service	Sept 29
Caparo Industries	Oct 13
Channel Tunnel Investments	Sept 25
Citygrove	Sept 22
Dean and Bowes	Sept 22
Eadie	Sept 23
Gates (Frank G.)	Oct 5
Inchcape	Sept 28
Int Inv Trust of Jersey	Oct 2
Kwahu	Sept 22
M. Y. Holdings	Sept 29

PENDING DIVIDENDS

Dates when some of the more important company dividend statements may be expected in the next few weeks are given in the following table. The dates shown are those of last year's announcements except where the forthcoming board meetings (indicated thus *) have been officially notified. Dividends to be declared will not necessarily be at the amounts in the column headed "Announcement last year."

	Date	Announcement last year
*Abbey Life	Oct 14	Interim 2.6
Bejam	Oct 15	Final 2.25
Brent Walker	Oct 14	Interim 3.5
British & Commonw'th	Oct 23	Interim 2.45
Ferguson Indl	Oct 23	Interim 3.1
Freemans	Sept 22	Interim 2.75
*Glaxo	Oct 12	Final 10.0
Hammerson	Oct 22	Interim 2.0
Hawker Siddeley	Oct 22	Interim 8.0
*Inchcape	Sept 28	Interim 7.15
London & Northern	Oct 23	Interim 2.1
Mowlem (J.)	Oct 6	Interim 4.5
NEI	Sept 30	Interim 1.65
Peachey Prop	Oct 14	Final 5.5
*RMC	Sept 24	Interim 5.0§
*Rugby Portland Cement	Sept 28	Interim 3.1
*Tarmac	Sept 21	Interim 2.45§
UEI	Oct 14	Interim 2.1
*United Newspapers	Sept 24	Interim 6.0
*Vickers	Sept 24	Interim 6.05

* Board meeting intimated. † Rights issue since made. ‡ Tax free. § Scrip issue since made. ¶ Forecast.

Public Works Loan Board rates

Effective September 16

Years	Quota loans repaid by EIP†	Quota loans repaid A‡	Quota loans repaid at maturity§	Non-quota loans A* repaid by EIP†	Non-quota loans A* repaid A‡	Non-quota loans A* repaid at maturity§
1	—	—	10¼	—	—	11¼
Over 1 up to 2	10¼	10¼	10¾	11¼	11¼	11¼
Over 2 up to 3	10¼	10¼	10¾	11¼	11¼	11¼
Over 3 up to 4	10¼	10¼	10¾	11¼	11¼	11¼
Over 4 up to 5	10¼	10¼	10¾	11¼	11⅛	11⅛
Over 5 up to 6	10¼	10¼	10¾	11	11	11
Over 6 up to 7	10¼	10¼	10¾	11	11	11
Over 7 up to 8	10¼	10¼	10¾	11	10⅞	11
Over 8 up to 9	10¼	10¼	10¾	10⅞	11	11
Over 9 up to 10	10¼	10¼	10¾	11	11	11
Over 10 up to 15	10¼	10¼	10¾	11	11	10⅞
Over 15 up to 25	10¼	10¼	10¼	10¾	10¾	10¾
Over 25	10½	10¼	10½	10¾	10¾	10¾

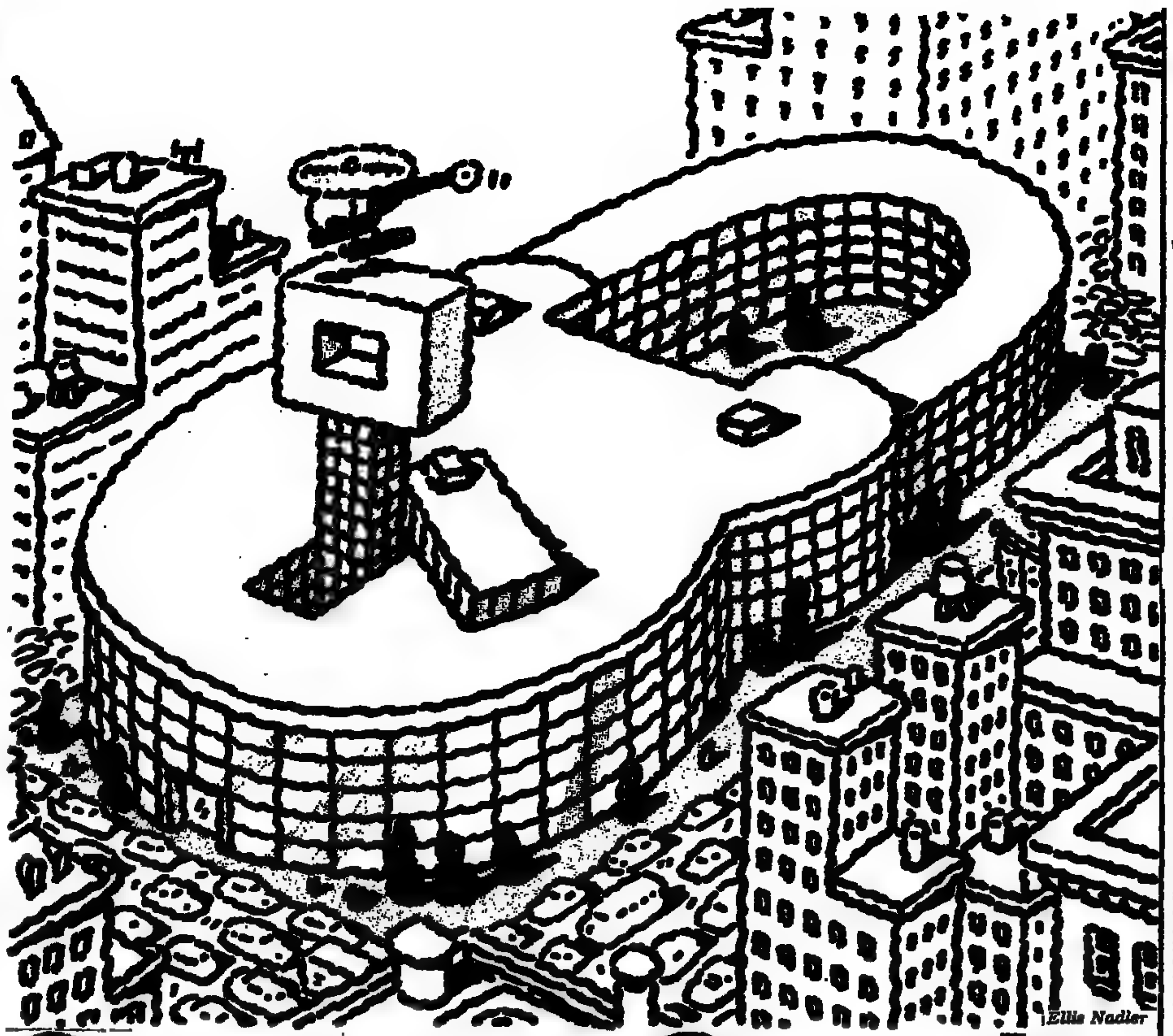
* Non-quota loans B are 1 per cent higher in each case than non-quota loans A. † Equal instalments of principal. ‡ Repayment by half-yearly annuity (fixed equal half-yearly payments to include principal and interest). § With half-yearly payments of interest only.

FINANCIAL TIMES STOCK INDICES

	Sept. 18	Sept. 17	Sept. 16	Sept. 15	Sept. 14	Sept. 11	1987 High	1987 Low	Since Compilation High	Since Compilation Low
Government Secs.	86.65	85.92	85.33	85.45	85.47	85.43	93.32	84.49	127.4	49.18
Fixed Interest	91.96	91.72	91.63	91.60	90.89	90.92	99.12	90.23	150.4	50.53
Ordinary	1839.2	1812.0	1790.2	1775.4	1775.4	1763.8	1926.1	1320.2	1926.2	49.4
Gold Mines	439.2	442.7	447.2	445.8	449.5	453.0	497.5	288.2	734.7	43.5
FT-Act All Share	1188.42	1176.85	1165.19	1158.17	1160.61	1155.54	1238.57	895.48	1238.57	61.92
FT-SE 100	2328.3	2304.5	2279.8	2264.5	2271.8	2261.2	2443.4	1674.5	2443.4	986.9

FINANCIAL TIMES SURVEY

Advances in technology offer some consolation to those fighting crime against companies. **Alastair Guild** looks at controlling access to buildings, computer crime, international counterfeiting, shoplifting, security consultants and the role of the insurance companies.


Ellis Nadler

Corporate Security

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Race to run against crime

CRIME IS not unlike the arms race. It is a well proven axiom that, as soon as a new technique for combating the criminal is found, the criminal starts work on circumventing it, and so the spiral continues. More recently, crime has become increasingly internationalised, making the prevention, detection and prosecution of criminals yet more difficult.

Advances in technology now offer some consolation to those fighting corporate crime. They lengthen the cycle time within that crime "race", though it is a frequent gripe within UK security companies that British industry and commerce is generally slow to take up and apply new ideas. In the US, security and its implications for overall company operations are frequently considered at board level. In Britain, it is said, companies often do not think of security and commit funds until the worst has happened.

But advances in technology have also created new and extremely profitable opportunities for dishonesty. It is estimated, for example, that 70-80 per cent of fraud in the UK now involves the electronic movement of funds. One expert has suggested, in a Domesday scenario, that the entire capital base of a clearing bank could disappear overnight. Just as those scientists who first split the atom seemed unable to foresee the damage, as well as the good, that such a giant leap could do, so are we only now waking up to the havoc that uncontrolled technology can wreak.

Some of the benefits of technology can be seen best in the way that access control has developed. According to Jordans' latest review of Britain's Security Industry, the access control market is growing at 33 per cent per annum and the indications are that this is likely to continue.

Security companies are now offering modular solutions, possibly starting with a stand-alone, single access system for £250 or so, building up to a network of gates, all monitored and controlled by a host computer which, at the same time, is collecting and analysing management data and monitoring and controlling building services. Intruder and fire alarms, CCTV and perimeter lights can also be built in. The software which drives the system can be finely tuned to meet a company's security requirements.

There is, it seems, no limit to the number of terminals, and consequently cards that such a system can handle. The world's largest access control network is at the National Institute of Health in Washington DC which has 800 readers connected up, reading a total of approximately 20,000 cards. The largest UK system, operated by a pharmaceutical company in the North of England, has 250 reader terminals linked in.

The cards used by company personnel to gain access to a building are themselves becoming more sophisticated and difficult to circumvent.

The amount of information that can be built in and the consequent level of security are increasing.

The duties of the uniformed guard are also changing in line with new technology. Guards are now being trained to monitor and respond to signals, not just from alarms, but from a wide range of devices controlling the service functions within buildings.

Computers, on the other hand, provide a vivid illustration of technology developing several steps ahead of our ability to retain control. Only now are the institutional and technological safeguards starting to catch up with the criminal element.

The formation earlier this year of a computer forum within the CBI shows a growing level of awareness of the damage that computer crime can cause, particularly with the distribution of data handling around networks both within and outside a company.

The Stock Exchange Securities Association, which co-operates with the City and Metropolitan Police Fraud squads and the Serious Fraud Office, now has more clout with the passing of the Financial Services Act. The association is hoping for greater co-operation from its members which, it believes, is in everybody's long-term interest.

There are glimpses of action in legal circles also. A report by the Scottish Law Commission has recommended the introduction of offences to outlaw "hacking," or unauthorised access into a computer system. But the police will need more co-operation from companies than they receive at present, since many prefer to keep gaps in security arrangements quiet for fear of public humiliation.

The security industry has responded rapidly to the rise in computer crime. That is not surprising, perhaps, since a recent Frost and Sullivan study suggested that the UK financial sector, now spending £85m on data security equipment and services, is expected to be devoting £176m a year by 1992. Expenditure in the industrial, institutional and other commercial sectors is also likely to grow fast, though from a relatively small base of £26m.

Specialised consultancies have been set up, both within and separate from the management consultancies of the big eight accountancy firms, and new devices developed, for example personal authentication tokens which generate one-time passwords.

Computer crime, however, increasingly transcends national frontiers. The fraudster is able to move proceeds around the world and so cover his tracks. Counterfeiting is another manifestation of this trend. The faking of manufactured goods is now a world-wide industry, amounting by some estimates to some £60bn each year or 3 per cent of world trade. The Far East—Taiwan in particular—is the leading source of counterfeit goods.

A Counterfeiting Intelligence Bureau was set up by the International Chamber of Commerce just over two years ago to investigate infringements of intellectual property rights. The bureau has so far conducted over 80 investigations in 21 countries, handling everything from bottles of fake champagne traced to a gang in India netting some $500,000 a month, to the case of a phantom jigsaw maker in Taiwan.

Tighter procedures for ordering and supply to exclude "outsiders" from the distribution chain are suggested as one way of minimising the possibilities of infringements.

At the same time, better management procedures are considered vital in the fight against such crimes as retail theft, kidnapping and product extortion.

Shoplifting, back-door and staff theft now cost retailers an estimated £1.5bn. Electronic article surveillance (EAS) was first used by Ms Selfridge in the early 1970s, and retailers are now spending millions of pounds each year on security devices, including loop alarms attached to goods and CCTV. But, Mr Peter Jones, a retail security consultant, says that shops should carry out a complete review of existing procedures and "make the best of what they already have, before opting for more pieces of equipment."

Major advances have been made in reducing the size of security tags which are now available in bar code format. Companies are at present working to reduce the false alarm rate. Worldwide sales of EAS systems total some $200m annually and are growing at a compound rate of about 25 per cent a year. But, say some analysts, this is still scratching the surface of what could be a $3bn a year market.

Security consultants advising on kidnapping and extortion emphasise the need to prepare for such events, before they happen. One firm has drawn up a checklist for companies which might be a target for extortionists, giving the steps to be followed when a threat is received.

The insurance industry is now stipulating that companies take, and act on, advice from security consultants before they will consider writing kidnap and extortion policies. It is also insisting on a prescribed level of data security before insuring against computer crime.

The larger insurance companies are making their presence felt in the field of corporate security in general. In percentage terms, insurance company theft losses from commercial premises last year increased in line with household losses, up 14.9 per cent on 1985 at £78m.

According to the British Security Industry Association, insurance companies could play a greater role in setting standards in the security industry. Too often they do not insist on quality, fearing that a competitor may be content with a lower quality, lower priced service.

This applies particularly to the manned services sector, belives Mr David Fletcher, BSIA's chief executive. However, the BSIA is itself proving to be a rigorous enforcement agency. An inspectorate monitors the financial probity of a company and standards of vetting. Mr Fletcher recently returned from discussing ways of keeping the para-military out of patrolling and guarding in Northern Ireland.

This year the association set up a security systems inspectorate to cover most aspects of design, manufacture, installation, maintenance and servicing.

The central stations operated by security companies to monitor and respond to alarms will be carefully scrutinised also, to ensure they are secure. Some have been attacked. A recent example was a terrorist assault by bulldozer on a central station in Belfast, cutting all the cables. The terrorists intended to rob a tobacco warehouse while the station was immobilised, but were caught in the act.

The BSIA is taking other steps to improve quality.

Policing of the security industry is becoming vital as more companies set up in response to the growth in crime. ICC, in its Business Ratio Report on the security industry, forecasts the competition will be particularly strong in the service sector.

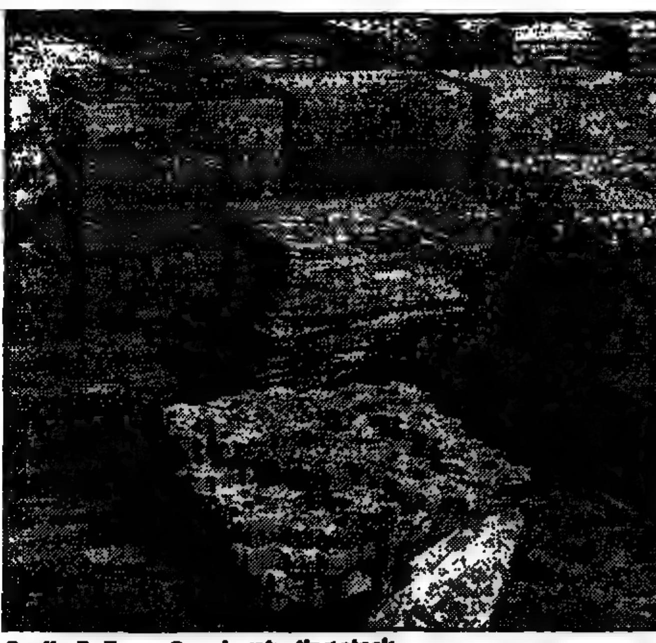
The Security Industry, ICC Business Ratios, 28/42 Banner Street, London EC1Y 8QE.

Jordans, Jordan House, 47 Brunswick Place, London N1 6EE.

Frost & Sullivan, Sullivan House, 4 Grosvenor Grdens, London SW1W 0DH.

Securing premises

Connections made to alarm



Sonitrol's Fence Guard protecting stock

SHORT OF all-out war, the communications rooms of the major security companies will remain operational. Their high level of security is understandable since they are now the nerve centres for the alarm systems installed at many of the high-risk premises throughout the country.

Behind a bandit-proof glass screen in a building just off London's City Road is Europe's largest communication centre, able to handle 50,000 alarm systems and capable of being extended. Over the past 18 months, the centre has been totally re-equipped at a cost of over £1m. Like Modern Alarms' network of centres throughout the UK and Eire, it is permanently manned. Over 40,000 customers have alarms connected to one of these centres, using either digital communicators, direct line, or BT's Red Care System. A further 600 alarms are being connected every month.

At City Road, four staff and a resident technician are on duty at all times. During any 24-hour period, the centre receives over 650 telephone calls, and within 30 seconds, alarms are interpreted and the police and or the customer notified.

At the heart of the centre is a twin computer system and "Brain." When an alarm is activated, details immediately displayed on the VDU screens include the name and address of the customer, the type of alarm, contact points and the customer's alarm history. Brain is Modern Alarm's own dedicated wire signalling system, handling some 3,000 connections.

Particularly high security premises like banks have dedicated land lines to these centres. But Chubb, which has seven communications facilities across the country, reports that banks are now looking at ways of cutting the costs of such links.

Chubb Alarms is one of the principal suppliers of alarms to National Westminster's branches, for example. NatWest already had its own data communications network, X25, connecting branches to its central computer. This is now being used to collect data from alarm systems at the computer centre. NatWest is the first bank to make use of this facility, but others are believed to be studying its feasibility.

According to Mr Anthony Record, chairman of the Britannia Security Group, the most significant advances in the area of alarms have been in monitoring and in the speed of response through computerised control stations. He believes that more than 50 per cent of the alarm industry is outside the British Security Industry Association and that many of these companies are unable to provide the measure of response offered by member companies. "I've talked to the chairman of large public corporations which have installed alarms using companies outside the BSIA," he says.

The technology for deterring or detecting intruders has come a long way. One system, developed by Pilkington, uses fibre optic alarmed tapes. Its Sabretape fence is a screen of horizontal tapes controlled by an electronic loop box which transmits and receives light signals along each fibre optic in the fence. If any fibre is broken, an alarm is generated. A fence can be fitted with a combination of alarmed and dummy tapes to make up a low cost system.

Among its advantages, says the company, is that the fibre cannot be bridged like an electric wire and that it is immune to conditions which cause false alarms in electronic equipment. It can be alarmed in zones and interfaced with other perimeter security equipment.

An alternative solution is provided by Sonitrol. Its Fence Guard works by detecting vibrations made, for example, when anyone climbs or cuts a fence. These are converted to audio and heard by the company's analysts at the control centre, not just picked up as signals on a VDU. As well as giving live audio, the system gives the analyst a zone location of a break-in. It also distinguishes between, say, the brush of a passing animal or wind-blown debris, and vibrations caused by a fence being cut or climbed.

A third possibility is offered by infra-red detectors which, in essence, are looking for a heat source. One such device has been developed by Plessey Research and is able to sense the presence of people, animals or vehicles at ranges up to 75 metres. A special lens made from germanium rather than glass collects and focuses the heat rays on to a detector that generates an equivalent electric current. Only current changes produced by movements are sensed.

The lens allows the detector to be pointed at a relatively small area like a door or window. The small size of the device and its cable-connected control box means the system can be easily hidden. The fact that it is "passive" and so does not itself radiate also reduces the chances of it being detected by an intruder.

According to Mr Terry Martiny, marketing manager of Chubb Alarms: "Infra red detectors have taken leaps and bounds in reliability. With the use of modern electronic components, they can process the signal received more closely, and target objects more efficiently.

"Advances are also taking place in alarm panels. Using computer software, an alarm panel can be programmed to decide whether an incident picked up by a detector is something worth calling the police for and to give out information to other parts of a building, for example, whether to turn on cameras in response to the detectors."

Locks have remained relatively unaffected by changes in technology. They tend to be the first line of defence and stand alone with little integration with alarm systems. One exception is a lock linked by a micro switch; and even here there have been some important developments. The main transition is from mechanical to electronic locking, by push button or card swipe rather than the turn of a key.

Whatever security elements are chosen, integration is vital, says Mr Richard Stoner, operations director of Henderson Security. "It is pointless installing sophisticated equipment at the front door if the rear is secured only by a flimsy lock. Proper analysis of risk is essential.

"The system must be both technically compatible and have a correct 'internal logic'." He quotes the example of an external alarm system which included CCTV camera controlled light detection as one of its activators. The building was flooded by search lights each time the alarm went off, so when the operator tried to turn the alarm off and in the process switched off the search lights, the cameras detected the change in light level and automatically reactivated the alarm. "A classic, if extreme symptom of combined security products not properly integrated.

"Thirdly, the system must be designed to do what the user really needs. Where specifiers are selecting multiple products for a single site it is vital that they consider every eventuality at the system design stage, not after installation."

Killby-Tann specialises in the supply of ex-stock bullet resistant windows and bulk transfer units to enable items such as cash or computer tapes to be passed into and out of a secure area without opening a door or window. It was awarded the contract to manufacture and instal access control booths for use by delegates, press and others requiring access to the Queen Elizabeth Conference Centre's conference facilities.

The company has developed an external security window which can be glazed with any thickness of glass up to 42 mm and is specifically designed for such applications as gatehouses, petrol stations or wages offices. "A major consideration in the design was the vandalism problem on the external wall of premises," says Mr David Pennell, the company's security surveyor. The window has a flat profile on the outside to reduce the possibility of this.

"The construction of wall counters and doors to secure areas should always be designed in the first instance to resist a physical attack because a sledgehammer will have more effect on the structure and fixings than an armed attack."

Over the past 15 years, safe manufacturers have been adjusting to the changes in the way cash is handled. Chubb, for example, supplies high security safes usually deployed behind Automatic Teller Machines. Independently tested in Germany, they have developed into a significant market and the company has invested over £200,000 in new manufacturing plant.

Other areas of diversification have included fire protection cabinets, one product specifically designed to protect magnetic media which can be damaged at 177 deg F compared with paper's greater resistance of 350 deg F. These cabinets have been independently fire-tested, and some computer companies also recommend them.

Alastair Guild

Controlling entry

Looking them in the eye

CONTROLLING entrances, whether to whole buildings or to sensitive parts of a building like computer suites, is exercising the minds of many in the security industry. The latest in technology is being brought to bear on what has become known as access control.

A great deal of research has gone into techniques which use our unique physical characteristics to confirm our identity, in short "biometrics". One example is the electronic fingerprint recognition system developed by scientists at Edinburgh University.

A full scale demonstrator of the device, which electronically matches a presented fingerprint against a memory store of "authorised" prints, will undergo field trials with the De La Rue Company, which has helped to fund work on the prototype.

The Eyedentifier, being marketed in the UK by Cardkey, offers another approach to controlling access, particularly for high security areas. It makes use of the fact that the pattern of blood vessels in the retina of the eye is even more special to each person than the fingerprint.

The device can operate in two modes, either recognition or verification. In recognition mode, it compares the pattern of the eye presented to it against all eye records held in any one memory, a maximum of 1,200, until it finds a match.

Alternatively, it carries out a one to one match, comparing the eye allocated to a Personal Identification Number in its records with the eye presented.

The speed of throughput is greater than with other biometric devices, says the company, and compares very favourably with card based systems of access control. Even if it had to search through the entire record of eye patterns, it would still take up to only six seconds to make the comparison and authorise or deny entry.

An additional feature the company is now looking at, for very high security installations, is tying two people's eyescans to one Pin number, so that both have to be present to gain access.

As technology advances, it will be possible to incorporate unique identification features such as finger or retina prints in smart cards. At present these use Pin numbers. A major innovation in the field of electronic access control is infra-red communications. This concept, patented by Newmark Technology, is based on a unique method of two way dialogue between a door controller and a hand held device called a commander.

It will be possible to incorporate unique identification features such as finger or retina prints in smart cards.

An authorised user approaches a door and activates his commander which holds information about his identity. The commander transmits an optical "wake-up" code to a reader which is connected to a door control unit inside the secure area.

The reader is programmed with information about those individuals who are allowed entry, and responds by sending a signal of its own to the commander. If this signal is acceptable, the commander will respond with a further code of its own which, if accepted by the reader, will unlock the door.

The entire exchange takes 70 milliseconds to complete, and the access code signals exchanged by the commander and controller change randomly with every successful entry operation. Any attempt to break the codes results in their destruction.

Honeywell Bull has recently entered the smart card market with CPS8, a system which not only ensures positive bearer identification but can also maintain its own history of use.

The company has also adopted the concept of access control as a management tool, or "event management". Every time a door is opened, the opportunity is created for information gathering and storage in a computer. In an emergency situation, for example, the whereabouts of every single person in a building can be established.

A composite, photographic identity card or badge is still one of the most accepted secure and versatile forms of identification available. Polaroid claims to have pioneered this technology more than two decades ago.

Polaroid ID-3 systems produce the PhotoSecure card, in which the subject's face and data are photographed simultaneously on a single sheet of Polaroid Land Film. Then, by applying pressure and/or heat, the sheet containing the portrait and data is encapsulated in clear, durable polyester or vinyl identification laminate.

The laminate forms a molecular bond with the film sheet, which makes the finished photosecure card virtually impossible to alter without detection.

Thorn Security has recently expanded its range of Passguard access control systems with Passguard 1, based on a small, uniquely coded tag containing a low-power frequency transmitter. Tags can be worn like a badge, carried in a pocket or handbag, attached to keyrings or to the front of goods vehicles.

The receiver, known as a "reading head", picks up the tag signal, confirms the authorisation code and if the signal is correct, releases the locking mechanism. The radio frequency signals used by Passguard 1 can pass through non-metallic materials, allowing readers to be concealed behind a wall or panelling if required.

The system can operate in a stand-alone mode, controlling up to eight doors and with a population of up to 255 users, but it can also be integrated with Passguard 3, Thorn's card-based access control system designed for medium to large-scale applications.

Up to 255 different access levels may be allocated to individuals or groups, to restrict entry to sensitive areas. Optional features include time zoning to allow access only during specified times, and event logging for recording all access movements.

Boris Sedacca

Patrolling

Changing of the guard's role

THE DAYS of the archetypal nightwatchman are over. In his place has come a security guard able to monitor and act on signals from the latest in technology. Gradually, but inevitably, technology will itself take over some of those duties, though, for the time being, the demand for patrolling and guarding services continues to grow.

Government and industry, which up to now may have provided security in-house are increasingly contracting out; while it is unheard of these days for there not to be some uniformed presence at such special events as sporting occasions, exhibitions and conferences. The uniformed guard is more and more evident in superstores and hypermarkets also.

"We have had to look at different criteria for training and retraining to be able to respond to customers' requirements," says Mr Henry McKay, managing director of Securicor. "Quite often, these can change from day to day. If he simply wants a static guard then we'll supply that. If he needs someone to use sophisticated electronic equipment, we can provide that."

Security companies offer what Mr Michael Moysen, commercial director of Reliance Security, describes as "an eyes and ears service. We are constantly in touch with the customer to review his needs and advise him on how he might best maintain the necessary security for his premises. Security is generally about good housekeeping, protecting your resources.

"Multi-tenanted buildings are among the most difficult to provide access control for. Staff often have access 24 hours a day, seven days a week. In the City, with the advent of global markets, there are people using buildings through 24 hours. This creates additional pressures, particularly as small groups of people working in a small isolated part often have access to the rest of the premises."

More responsibility has been handed to the uniformed officer who is often expected to operate and monitor CCTV, fire and intruder alarms, and access control systems. He could also be monitoring the service functions within a building, such as heating and ventilation systems, or industrial processes such as fridge temperatures for a food distribution company.

Action taken by Group 4's 3,200 uniformed employees last year gives some indication of the scope of a guard's duties. They reported 967 cases of safes and strongrooms being left open after customers' employees had gone home, switched off over 1m electric lights and some 500,000 pieces of heating and machinery, searched nearly 400,000 people and over 800,000 vehicles. Nearly 1m fires were discovered.

The security guard "needs to be more skilled, which means more intensive training and greater use of initiative," says Mr Jorgen Philip-Sorensen, chairman and managing director of Group 4, and past chairman of the British Security Industry Association.

Patrolling and guarding companies are, in turn, using increasingly sophisticated kit to make sure that the guard carries out his duties as expected. One example is the "wand" carried by all Securicor personnel as they patrol premises. Magnetic strips are placed at strategic places around a building. These are "read" automatically by the wand, stored in its memory and at the end of each round, the information is downloaded on to a personal computer which produces a print-out for the customer.

The larger patrolling and guarding companies also operate a network of control centres across the country. Guards are expected to phone in at certain pre-arranged times during a tour of duty, using a code. That is both for the benefit of the

guard, should he be attacked and injured by an intruder, and the customer. If the call does not come through, security companies will deploy a mobile supervisor who is in touch with a control centre, increasingly by car telephone.

According to Mr Moysen: "Technology has made the job of guards much simpler but more interesting. The more you can build into a job specification, the better. It can be difficult to keep them motivated when, at times, not very much untoward happens."

At the last two Conservative Party conferences, and at last year's Labour Party conference, following a review of arrangements in the aftermath of the Brighton bomb, Securicor personel checked everyone entering the conference building using rapid scan equipment and body searches and screened baggage with X-ray equipment.

The guard's role has changed in other ways. "In supermarkets and hypermarkets, his is not just a theft prevention or thief catching job, but he is more and more expected to help in the smooth running of the store because fewer shop assistants are about to help customers," says Mr Philip-Sorensen.

Company annual general meetings are another growth area. The security company will organise a sweep of the premises for bugs, for instance, and seal off the building once the sweep has been carried out. It will also check the credentials of shareholders where companies feel vulnerable to disruption by animal rights or other pressure groups.

Industry, as is seeks to improve its overall competitiveness, is becoming increasingly aware of the benefits of using contract security, says Mr Moysen. Last financial year, Reliance, which is exclusively a patrolling and guarding company, reported a 25 per cent increase in business and predicts the same growth this year.

- Companies should see savings of 25 per cent in manpower costs by contracting out, since they will no longer need to employ surplus staff to cover sickness and holiday periods.
- Security companies carry out recruitment, training and supervision, allowing a customer to get on with its core business.
- Contracting out gives a company more flexibility in introducing new security equipment, since it will not involve expensive redundancies.

Many new security companies have set up on the strength of the market potential. Not all of them operate to high standards, and perhaps that is why some are able to offer a cut-price service. The British Security Industry Association, concerned at the possible implications for the industry's reputation, has set up a manned services inspectorate to monitor the financial probity of companies, the training provided, and the vetting standards for employees.

The larger security companies trace an applicant's employment record back 20 years, or since he has left school, and investigate any gaps. "That can be an expensive business. The thoroughness of that investigation often marks out the reputable security company," says Mr Moysen.

As with patrolling and guarding, technology has had an impact on the transport of cash. There have been major advances in the construction of vehicles, and micro-processors are now being used to control their security features. Likewise, training has become more rigorous, as the number of attacks on vehicles increases, averaging one for every working day. Fifty per cent of these are carried out with firearms.

Security companies report an increasing demand for cash handling services. Group 4, with 350 cash carrying vehicles and 1,000 employed in cash-in-transit, reports a 20 per cent growth last year and expects a similar rate of expansion this year.

But, like Group 4, Securicor, with 1,500 armoured vehicles on the road every day, and 5,000 employed in this service, says that the market is changing rapidly.

Securicor now offers a cash processing service. Every year it collects £3bn of cash from 6,600 customers outlets nationwide. That cash is taken, not to a bank, but to one of Securicor's 60 cash handling centres. It is then checked and the bank advised to credit that customer's account. At the same time, Securicor pays out £7.5bn to users of cash. "We agree on a matching situation with the banks, whereby we won't necessarily bank all the cash we receive. A major advantage is that it cuts down on the amount of cash carried 'across the pavement'," says Mr McKay.

"We supply customers with statements, similar to those provided by banks, saying 'I've credited you with £2m, these are the locations I've picked up from, the amount and these are the discrepancies I've resolved.' These statements are available either in hard copy or on-line from our computer."

The advent of automatic teller machines has also created new opportunities for security companies. Group 4 and Securicor have, for example, invested in machinery for sorting our notes for ATMs. These machines require "superfit" notes, of a certain quality. Banks and building societies cannot get enough.

"We sift through notes for those that meet the tolerance of ATMs, fill cassettes with cash and then load them into ATMs," says Mr McKay. Part-used or empty cassettes are removed, and simple maintenance tasks carried out on the ATMs. This includes taking readings from machines and returning jammed cards. The part-used or empty cassettes are reconciled for the customer.

Securicor extended its service recently with the introduction of Safelink. Customers can move cash or valuables around the UK five nights a week. Each vehicle has its own fire safe — tested by Lancashire Fire Brigade for its resistance to damage by fire — for irreplacable deeds and documents. These vehicles travel from secure area to secure area, with no stops on the way. Safelink is already being used for the transport of travellers cheques, jewellery, drugs, and wages paid by companies nationwide.

Alastair Guild

Known losses from computer fraud reach £30m a year

Significant advances against crime

ON DECEMBER 27 last year, an employee of a London bank was working in its SWIFT transfer room. SWIFT, the international electronic network used by all banks to transfer funds overseas, requires two passwords, the first to input funds and the second to confirm, or " release," that transfer. The employee, who already had custody of the release password, found the input password on a desk in the transfer room. Later that day he " withdrew " £2.5m. The bank discovered the illegal transaction on January 4 and traced the money as far as Paris. But there the trail disappeared. The employee proved just as illusive. However, Scotland Yard was not informed.

Known losses from computer fraud in the UK amount to between £25m and £30m annually. But that, says experts, is just the tip of the iceberg since many firms never report incidents for fear of the embarrassment and loss of confidence it may cause.

What is more, computer fraud, which until now has posed the major threat to companies is now being challenged by other forms of computer "crime." There is, as yet, little protection offered by the law, a matter now being reviewed by many bodies.

The Scottish Law Commission, for example, recommended in a recent report that it should be an offence to obtain unauthorised access to a program or data in a computer if the purpose is to inspect or damage programs or data with the intention of securing an advantage for oneself or another or of damaging another person's interest.

The report recommends a further offence of obtaining unauthorised access to a program or data and going on to damage another person's interest by reckless alteration or erasure of a program or data. In the second offence the person does not have the intention initially to cause damage but achieves that result through recklessness.

" The popular press becomes bemused by the antics of the small-time hacker. We've found that the greatest risk comes from a company's employees," says Sheriff Gordon Nicholson, commissioner with responsibility for criminal law matters at the SLC. " That's why we've framed the offence to catch both the person committing a crime at long range and the employee, someone with authorised access who goes beyond the limits of his authorisation, or someone with no access at all."

The commission's recommendations have, in general, been favourably received. In the meantime, incidents escalate.

According to Mr Ken Wong, of the security and privacy division of BIS Applied Systems, there are four offences fast catching up on computer fraud:

- The potential of insider trading or industrial espionage is great. Using a low cost receiver with amplifier and tuner to pick up electronic pulses, information from VDU screens or printers can be monitored at a location outside a building. Such eavesdropping equipment, already demonstrated to be effective by an engineer working for the Dutch PTT, was used to obtain information during a recent takeover battle.
- There is likely to be a resurgence of " hacking," believes Mr Wong, following the successful appeal in the Court of Appeal last month by Gold and Schifreen against a conviction under the 1981 Forgery and Counterfeiting Act. " Judges and law lords still look at forgery and counterfeiting in the context of bank notes and cheques, when they should be applying it to electronic pulses. Juries are not in a position to decide on high technology issues based on limited experience."
- The cases of fraud from ATMs (automatic teller machines) are on the increase. A criminal finds a wallet with an ATM card inside, but needs the holder's PIN (personal identification number). He rings the holder, saying he is from the police, and that he has found the wallet. Could the holder please give him his pin number to identify him as the owner of the wallet. Mr Wong says: " Nine times out of ten, the person will be in a panic, and divulge the number. The 'police officer' will say that he has already told the card issuer to disable the card. In the meantime, he draws out money from the ATM."
- PC floppy diskettes, sometimes holding vital company information, such as marketing plans or product information, can be easily copied. One case involved a formula for the flavouring of food products. The personal computer was kept in the research and development department. A member of staff made a copy which he then sold to a former member of the company working for the competitor.


The greatest risk comes from a company's own employees

A yet more insidious form of computer crime, highlighted by Professor Henry Beker, managing director of Racal Guardata, is the "logic bomb." A software engineer, perhaps disgruntled because he has been given the sack, leaves a bomb in the system, possibly destroying part or all of the data base, or phones his former employer to say he has left a bomb in the system and if he does not pay up, the bomb will be detonated. And computers can catch a "virus." The effect is that any system that talks to the system with the virus catches it and can crash.

Mr John Snell, marketing director of Computer Security, argues that perhaps the greatest threat comes from passive computer crime. The very justification for the computer networks now being used by large car manufacturers, for example, is that their sub-contractors and suppliers should have access to take off drawings or designs. From these, they design and manufacture parts. "The passive crime of hacking into someone else's data base has the virtue that you probably cannot be found out."

The implications of and possible solutions to computer crime across industry and commerce are now being more widely aired. The CBI, for example, has set up a computer forum where its members can discuss matters of concern. It is also likely to make recommendations to government on legislation it feels necessary. Lloyd's underwriters insist on data security before they will insure against losses from computer crime, while firms carrying out audits are starting to develop data security groups to advice clients on preventative measures.

It is the banks and financial institutions that have taken the threat of computer crime most seriously and invested most heavily in prevention. According to a Frost and Sullivan study, Data Security Equipment and Services Market in Europe, the financial sector is expected to spend £85m this year on data security, rising to £176m in 1992.

Interest was stimulated recently when Pru-Bache only just managed to avoid a loss from fraud of about $6m. At present, it is estimated that most of the money being spent is going into improving hardware and physical protection, but " It sems likely that software systems will become much more important in the next few years.

" Security spending in the industrial, institutional and other commercial sector looks small at £26m for 1987, but markets for data security equipment and services are likely to grow fast as the supplying companies identify the main hazards and produce solutions for them."

The computer companies and software houses are only now starting to build preventive features into their products, aware that if they do not, they may well lose customers. In turn, there is more recognition among users that computer security must not be treated as an afterthought to systems design, installation and operation, but must be undertaken as an integrated activity from the outset.

Much of the responsibility for raising the profile of computer security rests with IBM, as the dominant player in the industry, claims Mr Snell. " The measures adopted by IBM so far are essentially software based which, he says, can be circumvented relatively easily. " Software solutions are not good enough any longer."

There have been significant advances, nevertheless, in the technology available to combat computer crime.

The costs of protecting against eavesdropping on electromagnetic emanations from computer equipment, for example, have fallen drastically in recent months and are currently attracting only an additional 20 per cent premium on the costs of equipment to provide the necessary shielding. Britain's Ministry of Defence has also relaxed its restrictions on defence contractors to offer such products to the business sector.

Devices to counteract the threat of hacking are now available. Hackers commonly gain access to a computer system by " guessing " a password. Racal Guardata and Computer Security have both developed personal authentication tokens to generate one time passwords. According to Mr Andrew Pawlowicz, head of the information systems group at Ernst & Whinney, such methods of personal authentication ought to be used much more.

With the growth of large computer networks, methods of ensuring that messages are not tampered with as they pass between a host computer and outlying terminals are receiving greater attention. The integrity of a message could be protected using a code based on the principle of message authentication.

There are two options, says Mr. Pawlowicz. The most cost effective solution for a large network would be " application dependent." A security module at the host computer would contain the encryption algorithm and would store the encryption keys and application program securely. The applications software would tell the host computer when a message needed to be encrypted and when to call on the host security module. Each terminal would need its own security module, which would interact with a personal authentication token. Some terminal manufacturers are offering an encryption algorithm built into the terminal.

Data in store can be encrypted also, so that only people with the right passwords or " key " can read them. " On a normal personal computer an office cleaner could sit down and pull off information, which, with the increasing power of stand alone terminals, can be highly sensitive," says Mr Pawlowicz.

Alastair Guild

Bugging

Cleaners need clearing

EVERY DAY in the UK, as many as 200 miniature transmitters and recorders can be sold. Though some may be bought by *bona fide* private investigators, many end up in the hands of those hired to gather sensitive industrial information.

It was the bug in the boardroom of Davenport's Brewery during a £10m takeover bid last year by Wolverhampton & Dudley Breweries that first drew bugging to wide attention. The " bugger " has never been found. As was pointed out at the time, there was little action that could be taken, even had his identity been discovered.

The law as it relates to bugging is principally to be found in the Wireless and Telegraphy Act 1949 and the 1985 Interception of Telecommunications Act which came into force in April 1986. Naturally, the use of a transmitter to eavesdrop could not be licensed, so rendering the " bugger " liable to prosecution under the 1949 Act, and, on conviction, to a maximum penalty of three months' imprisonment and or a fine of £2,000. But because transmitting devices used in bugging are very low powered and the chances of them causing outside interference is minimal, detection by the Radio Investigation Service of the DTI is virtually impossible.

What is believed to be the first prosecution under the 1985 Act is now underway. The accused are charged under the Criminal Law Act 1977 with conspiracy to intercept telephone calls. The maximum penalty on summary conviction is a fine of £2,000, and on indictment two years imprisonment and or a fine.

But, with the installers of bugs apparently able to receive payments as high as £10,000, the value of the information to a competitor, and the devices themselves being freely available, many experts are questioning whether the present level of fines is sufficient deterrent.

Exchange & Mart sells devices quite openly for as little as £5. A catalogue produced by one European company offers a range of " disguised listening devices," marketed as being " for government use." Sometimes they are planted by a member of staff paid by a competing company. In other cases, someone working for an outside contractor has been bribed to allow access for the device to be installed. The cleaner is quite a common culprit.

The bugs can be disguised as to make them undetectable without specialist equipment. One example is the transmitter built into and powered directly from a wall socket, another operates from within a light bulb, with the added advantage that the eavesdropper does not need to return to replace batteries. A third is attached to the handset wiring or distribution box of a telephone, using the telephone's system's electric current. Transmission range can be anything up to 500 yards.

Transmitting devices are now available to pick up data. These can be placed in the back of a computer terminal, or on a junction box or anywhere along a telephone line. A printer can be attached to the receiver, perhaps in the back of a van parked in the street, to provide a hard copy of the data as it is being composed. The shorter the transmission distance, the less chance it has of being discovered.

According to Mr Kenneth Lodge, managing director of Security Investigations and Protection Services International: " Many companies live in blissful ignorance. They prefer to think that this sort of thing doesn't happen. When a device is found, the response of the company has been to keep it quiet, to avoid a fall in the share price or public scandal, and to take action to avoid any reoccurrence.

SIPSI carries out sweeps of premises for companies concerned about the leakage of sensitive information, charging on average £1,260 a day, and using counter-surveillance receivers and telecommunications analysers, costing £15,000 a piece. It was recently involved in the installation of a permanent rack system for a European defence establishment at a cost of £150,000. This will sweep all telephone lines, data terminals and sensitive office space.

SIPSI discovers a device during 5 per cent of its sweeps, which can include tracing all wiring, even along conduits. Recording devices are often found during a physical search.

'Many companies live in blissful ignorance. They prefer to think that this sort of thing doesn't happen. When a device is found, the response has been to keep it quiet.'

But, says Mr Lodge, his investigators can be called in long after the information has been gathered and the bug removed. There are some clients, though, who ask for a sweep to be carried out on a regular basis, for example, before a major board meeting.

According to the manager responsible for security at a leading merchant bank: " We take precautions against telephone tapping and bugging of conference rooms, and have been hiring a company to carry out regular sweeps for some time. We have increased the frequency of those recently, especially at particularly sensitive times, for example, during a takeover battle. It is something that accepting houses in general are doing much more than they used to."

This bank also has two anti-bugging machines of its own, each costing £800, and placed in rooms for highly sensitive meetings. These are supposed to jam any signals from transmitters. Ironically, perhaps, these jamming devices could themselves be in contravention of the 1949 Wireless and Telegraphy Act. " Though we haven't come up with anything, I hope that the fact that we've taken these precautions and that it is known throughout the bank will act as a deterrent."

The bank also takes steps to clear cleaners. It has received assurances from the contractors that their employees' records are checked, and any cleaner going into sensitive areas is subject to the bank's own clearance procedures. " With some people, such as telephone engineers, we carry out even more intensive checks."

This is a point reinforced by Mr Lodge. Companies may have all kinds of security procedures around their offices, but the telecoms exchange in the basement can often be wide open to telephone tappers.

Though the bank does not use scramblers for telephone conversations, that is now under consideration. " Speech scramblers can be a useful part of any corporate voice security," says Dr Tony Bromfield, a consultant with Ernst & Whinney. " Commercially available devices provide different levels of protection against threats such as line tapping. But they do not protect against listening devices placed inside a telephone user's office. The difficulty is that they may be thought by users to offer protection against threats they are not designed to meet."

Scramblers are typically used by senior management to protect corporate secrets and by security services, and may, in the future, be offered as an option to protect cellular telephone networks which are particularly vulnerable to eavesdroppers.

The use of speech security systems is likely to increase with the introduction of fully digital private and public telephone networks, believes Dr Bromfield. " Only then will it become cost effective to implement large secure networks. Future networks could allow such users as dealers in financial markets to authenticate transactions made over the telephone. At present, dealers cannot be sure of the identity of the person at the other end."

Some security consultants argue that bugging the boardroom or tapping he telephone can be unnecessary while plenty of information is left at hand on desks and in unlocked drawers. Companies may suspect they are being bugged, but Mr Lodge has found carbon tapes from typewriters or printers in rubbish bins during sweeps of company premises. Hatched out along the tapes is all the information the competitor wants.

There are now machines to destroy such materials. Volumatic, the Coventry-based company, has already sold between 200 and 300 Disintegrators worldwide to banks, credit card companies, defence contractors and large industrial concerns. All branches of the British Armed Forces and several Royal Navy ships are equipped with them.

There are two reasons for organisations buying Disintegrators rather than shredders, says the company. Either the materials they need to destroy are too bulky or tough, or the volume of material to be destroyed is too large.

The materials that Disintegrators can handle but which shredders cannot include most data storage media, microfilm, video or audio cassettes, floppy disks, whole ring binders including the metal components, whole books, magazines and reports, unburst computer printout cheque book stubs and offset printing plates. They are also being used to destroy printed circuit boards.

But such precautions ought to be seen in the context of a far broader management approach to security. The businessman often fails to appreciate the wide range of data that could be useful to a competitor. Today's " industrial spy " is frequently able to obtain confidential material by quite lawful, and in some cases, ethical means. Equally, say consultants, the workforce should be made aware that by jeopardising the firm's confidentiality, for example by the discussion of sensitive business matters in public or with strangers, its own fortunes can be damaged.

Alastair Guild

CORPORATE SECURITY 4

Security printing

Confidential night workers

PRINTING HOUSES have been among the unsung heroes and the main beneficiaries of the financial revolution. While the City itself has been rocked by scandal and intrigue, their reputation for maintaining strict confidentiality during takeover battles and privatisations has remained intact.

That is all the more remarkable against the background of shorter and shorter turnaround times for more and more documentation. The security printing industry has become a bit like the newspaper industry, with more people generally working on nights than days. It is quite usual for customers to give the final go-ahead for an offer document at midnight and expect the printed document on their desks first thing the next morning.

Heavy investment in computerised typesetting across the industry has helped houses meet such deadlines, with direct input, single key operation, and automatic page make-up, for example, more or less standard.

The printing houses engaged in this sort of work typically produce a wide range of less urgent documents at plants in London and outside. More often than not linked electronically, they can be called into play to handle the sudden surge associated with mergers and privatisations.

Oyez Press, with the help of associate companies within BPCC handled the entire production for the Rolls-Royce issue, for example. One million copies of 61 different documents were produced in 30 hours, while a group specialist plant in Leeds produced 2.5m other items in three days, such as special share allocation forms with return cheques attached, and unique identifier labels for employees to ensure that they were able to apply only for shares to which they were entitled.

But, at times, confidentiality must be maintained for longer periods. The Hanson Trust bid for Imperial, the largest the City has seen to date, became a four-month battle, and was further complicated when United Biscuits was asked to become "a white knight" for Imperial.

According to Mr David Butler, an Oyez director, "the only available copy of the share register was put on to computer by us, so we more or less acted as registrars, ensuring that once an acceptance had taken place, we were abe to keep the merchant bank informed of progress."

"Confidentiality is of paramount importance as one wrong reply to a telephone inquiry can confirm the position of a company about to reject a bid. We train our staff just what to do and say in such situations."

"Any breach of confidentiality would be a major embarrassment, not just to the company but to the industry as a whole," says Mr Bill Morter, sales director at Greenaway Harrison, one of the big four printing houses sharing the takeover market in London. Part of the Lonrho Media Group, Greenaway was the printer for Guinness, and for Imperial and Woolworths in their defence against bids by Hanson Trust and Dixons respectively. It reports an increase in turnover of more than 20 per cent since deregulation.

"Confidential printing accounts for two-thirds of annual turnover, but there is a degree of security and confidentiality in most of our work," says Mr Morter. The firm has clearance to print HMSO documents, for example, and carries out work for the Royal Household, producing garden party invitations, state banquet seating plans, and orders of service for state weddings. Greenaway Harrison also prints cheques and bonds associated with bond issues.

The steps taken by Williams Lea, another of the big four, illustrate the degree to which confidentiality is ensured. At the heart of its main works, just behind Finsbury Square, are the suites where customers can scrutinise the proofs of offer documents, listing particulars, defence documents or chairman's messages in total secrecy. They need never leave the suite till the proofs have been passed, since each is self-contained, with its own shower, toilet, kitchen, stock of food and even a bed.

Control of access to this inner sanctum is strict. There is only one entrance to the building, which is manned 24 hours a day. Entry to the main part of the building and to its departments is by plastic card. Each card is on a computer file, so that at the end of each day, a print-out can show who has entered which department.

The printing process is itself tightly controlled. An offer document, for example, comes together in front of the works superviser only just before proofing out to a customer. The amount offered is blobbed all the way through proofing and is dropped into the text only once it has been finalised and is known to the public. Similarly, the names of companies are in the vast majority of cases coded until the last moment.

All documents, once approved and printed on the company's own watermarked paper, are dispatched with security covers. Any documents not sent out to a customer are shredded on site and disposed of in bale form. Material stored on computer is archived once a week, copies made are stored off site in bonded, bomb-proof, fire-proof safes with clear procedures about who has access.

Williams Lea has, like the other large printers, established electronic links with printers overseas to cater for an increasingly international market. Again, confidentiality is of the essence. Documents transmitted over the telephone lines are scrambled, coming together only once all the data has been received. Such techniques were employed, for instance, when the British Airways prospectus was sent electronically to the US where it was amended to fit the Securities Exchange Commission format before BA's flotation on the New York Exchange.

Any new member of staff is usually taken on recommendation only

In April, after over three years of negotiation, Williams Lea launched a similar tie-up with a Japanese printer as a response to the growing number of Japanese companies seeking to raise finance on the Eurobond market. The other houses are similarly conscious of the need for international links. "We seek to ensure that the document follows the customer, wherever he goes in the world," says Mr Robert Hodgson, managing director of Williams Lea.

However, precautions taken to ensure confidentiality would be for naught were employees not to observe them. At Williams Lea, for example, the average employee has completed 23 years' service. Any new member of staff is usually taken on recommendation only, while those moving into positions of authority are expected to spend a day with an industrial psychologist.

Integrity is also the guiding principle behind De La Rue, the world's biggest banknote printer, which last year took over Bradbury Wilkinson, its main UK rival. Banknotes printed by the company circulate in more than 90 countries, it is the largest producer of traveller's cheques in the world, and prints passports—it produced the first ever passport with a hologram through it—and identity cards for governments. It is also among the leading producers of bearer securities, cheques, postal orders and other documents of value.

Standard characteristics to minimise the possibilities of counterfeiting are a watermark and intaglio border. Added security measures include complex background patterns generated by computer and laser. Optional extras, such as latent images, only apparent when the paper is held at certain angles, are also available. The paper used is dull and does not reflect ultra-violet light, whereas most commercial counterfeits use bright paper.

"The company started as a printer of bank notes, so our standards of security are set by that," says Mr David Willis of Bradbury Wilkinson/De La Rue. All its products are produced in a secure location, under secure procedures with people who are trustworthy and on the company's own paper. Paper stocks are continuously audited to ensure none goes astray. After printing, bonds, for example, are escorted from the factory to the depository door. "Bond issues have been lost by printers, though not by De La Rue. It is embarrassing for the issuer and the lead manager."

For London listings, every issue has to have its own unique border, while in Luxembourg there is no such requirement. "That makes it more cost effective to print, but easier to counterfeit," says Mr Willis.

There are other deficiencies in the protection of bond issues against fraud, he believes. Each coupon attached to the bond itself has a life of its own. These coupons can be worth upwards of $500 yet there is no requirement to take the other coupons or the bond along when redeeming the coupon. "Because they are so small, it is difficult to build integrity into a coupon. We include fluorescent numbers and micro lettering along the cut line."

Vast amounts are spent on research and development, just to keep a few steps ahead of the counterfeiters.

Alastair Guild

Bodyguards

Escort service

Executives take part in realistic training exercises

IN THE murky world of kidnap, abduction, product contamination and extortion, fiction and fantasy can often become confused with fact and reality. There are several myths which companies specialising in advising companies and businessmen are particularly keen to dispel.

They stress that they never carry weapons, even in the most high-risk areas of the world, and that they will take on a assignment only when the client agrees to co-operate with the law enforcement agency of the country concerned.

Bodyguarding, as such, is a very small part of their business. The emphasis is rather on prevention and crisis containment as a whole and, in the case of product extortion, which cannot, in the first instance, be prevented, helping companies devise management strategies to minimise the damage to their reputation and financial standing.

"We describe our people as escorts rather than bodyguards," says Mr Alan Hoe, a director of Shield International. "Our main aim is to prevent our client getting into trouble. The word bodyguard implies that you guard with your body, throwing yourself between a client and a submachine gun. Nowadays, I doubt if you would find anyone prepared to go to those lengths."

Demand for Shield's escorts comes mainly from the US and the Middle East, some of the US businessmen being UK-based. International incidents can prompt an upsurge in demand. Interest from American businessmen shot up following the bombing raid on Libya, prompted by the fear of reprisals. Visiting dignitaries account for 30 per cent of Shield's bodyguarding business, some of them leaders of African countries worried about the possibility of attacks by opposition groups based in the UK.

The safety of European businessmen travelling overseas can also be jeopardised by international events. According to Mr Hoe, the main threat comes generally not from kidnapping but from the executive becoming accidentally caught up in terrorist action, for example, at airports. Today, however, with few regions immune from instability of one sort or another, companies such as Shield and Control Risks emphasise the need for a businessman to be constantly updated.

The number of kidnaps recorded by the US State Department increased fourfold between 1972 and 1985. Forty years ago, 20 countries were affected; now there are more than 60.

"A lot of businessmen are unaware of the true risk in different parts of the world," says Mr Simon Adams-Dale, managing director of Control Risks Prevention Services. "It can be difficult, especially for the busy executive, to put the correct interpretation on all the information avalable."

Indeed, one of the main aims of the Research Foundation for the Study of Terrorism, an independent charitable educational trust, is to finance a project comparing trends in kidnapping and other forms of terrorism, drawing on data bases throughout Europe.

"In Latin America, Spain and Italy, for example, there appears to be a strong tradition of criminals kidnapping for money," says Mr Paul Wilkinson, chairman of the Trustees and Professor of International Relations at Aberdeen University. "Their victims tend to be wealthy individuals from their own country, perhaps because they feel they are more likely to get away with it without involving the full force of foreign security forces.

"In the Middle East and South-East Asia, the value of foreigners is seen to be so great that they are the most sought-after target."

But for business as a whole, the most damaging form of terrorism is the protracted campaign, such as is taking place in the Basque country or Corsica, says Prof Wilkinson. Employee morale drops, and companies find it difficult to attract investment.

"The decision whether to stay or pull out is more an art than a science. By studying trends and keeping a close watch on the political situation, companies will be in a better position to make the right decision."

Control Risks, which is understood to be the security organisation providing a "full protection" package to business travellers using travel agents Thomas Cook, offers a regular subscription service, gathering together information on different parts of the world. This is available, either in hard copy once a month or on-line, updated daily and is currently subscribed to by 450 companies.

Ninety per cent of the information is "in the public domain" in one form or another. The other 10 per cent comes from the company's own sources in a country or region. A "stringer" on the spot, usually with an academic background, reports regularly. Each region also has a "desk officer" responsible for producing the daily and monthly updates.

More in-depth analyses take a longer perspective, some looking as far as five years ahead. "Most companies have a short-term interest in a country, perhaps because they are sending out one of their executives," says Mr Adams Dale. "Others, such as companies thinking of investing or disinvesting, want a longer-term view." One example is a major bank planning a major computerisation of its operations in the Solomon and Vanuatu Islands.

Control Risks also brings together syndicates of companies which "perceive they have a common problem but cannot perceive what that problem is—say, companies facing threats from animal rights groups." They then discuss it among themselves and come up with a common solution.

Much of Shield and Control Risks' work goes far wider. Asset Protection, part of the Shield Group, offers security consultancy, carrying out total security audits. Mr Hoe recently returned from Peru, advising a large American corporation on the precautions it should take to protect its buildings and personnel. This included reconnoitring roads from residences to the premises, and sorting out the safest possible route.

Shield is also receiving a growing number of inquiries for its security awareness courses for executives. These teach how to recognise an incident in its infancy and how to search cars and organise home and office life to minimise the risks in an unstable country.

Control Risks has a company specialising in designing systems, both procedural and physical. Much of its work takes place before a building is constructed, designing in access control, surveillance and fire safety systems, anticipating possible changes in threat levels or advances in technology which could render such systems obsolete.

Protection of people involves surveys of residences, office locations or factories and the training of people with a security function, such as drivers, guards or businessmen themselves. In areas of acute threat, bodyguards can be provided.

Contingency planning is another essential element, preparing companies for disasters, such as kidnapping or product extortion. "Issues involved in disasters are discussed with the client and we suggest management structures to enable them to respond to a crisis," says Mr Adams-Dale.

Control Risks has produced a checklist for clients worried specifically about product extortion. It has also started an information service to keep them abreast of the lessons learnt by Control Risks from its handling of such incidents in America and other countries, such as Australia where they are becoming a problem.

Control Risks has handled 45 cases of product extortion, two of which illustrate the benefits of pre-planning.

Company A received a written threat last year at a store in the West Country. There were no instructions about how to handle such communications. The secretary who received the letter told her colleagues and someone spoke to the local police station. Uniformed police arrived to investigate, and a short time later a local journalist appeared.

The first that head office knew of the incident was a phone call from the press asking about the safety of a well-known and highly profitable consumer product. Considerable publicity followed, the product was withdrawn locally and losses were estimated at £2m. The threat turned out to be a hoax.

Company B had established a sound working relationship with local police. With the help of Control Risks, the company simulated incidents and planned for contingencies. When a genuine threat was received, it was contained and analysed. Working in close co-operation with the police, the company responded in a planned and organised way. The extortionists were arrested and the threat removed.

Had the incident become public knowledge, it is likely that the product line would have been terminated, 400 jobs lost and the recall, destruction and associated costs would have exceeded £1m.

Kidnap, Hijack and Extortion, by Richard Clutterbuck, published by Macmillan, 1987;

International Terrorism-Threat and Response, by Alan Hoe and Eric Morris, to be published January/February 1988 by Macmillan Research Foundation for the Study of Terrorism, 40 Doughty Street, London WC1 N2LF.

Alastair Guild

Insurance companies

Commercial theft claims double

INSURANCE COMPANIES are constantly reviewing their approach towards corporate policy holders, though they are unlikely to introduce a system of discounts for those taking certain security measures, as they have done in the domestic sector.

According to the technical manager of the risk improvement department of one major insurance company: "In a lot of cases, it's a constant fight to get companies adequately to secure premises. If insurance companies offered reductions, this might act as an incentive; indeed, we may reflect above-standard security precautions in our rates."

However, the prevailing attitude among insurers at present is to tell companies seeking cover: either you improve your security or we will not issue a policy. The major insurers have their own teams of surveyors who are expected to use their discretion and experience to achieve reasonable security, bearing in mind what is at risk. The amount a shop, for instance, would be asked to spend in security would reflect the volume and value of stock. The installation of CCTV is not generally required before a policy will be issued.

Premiums will usually reflect the type of risk and the level of crime in a particular area. In the range of "very hazardous" and "ultra hazardous" goods are clothing, furs, hi fi equipment, home computers, computer games, jewellery and precious metals, radios and TVs, record players, tobacco and clocks and watches.

Claims are on the increase. The Association of British Insurers reported a 14.9 per cent increase for commercial theft losses in 1986 over 1985. At £78m, they have more than doubled since 1981. But large companies do not always insure against theft. The value of contents may be high, but the risk of theft low. But it is still important to take adequate security precautions to keep out vandals or potential arsonists.

Vandalism, if it occurs during a burglary, would be covered under a theft policy, but if someone broke in and set the premises alight, that would be dealt with under a fire policy. "Some companies take out separate theft insurance, but the number of mono policies has reduced considerably," says one insurance company risk manager. "It is generally more advantageous to take out a package policy."

Corporate insurers can cover themselves separately against staff dishonesty by fidelity guarantees. This has traditionally been aimed at theft of money, but has been extended to cover aspects such as computer fraud. Colluision between an employee and someone outside a company to commit a crime is not generally something that insurance companies will cover. As the representative of one insurance company put it: "This would be an encitement to fraud. It must be the employer's responsibility to ensure that he vets his employees thoroughly, though some firms ask to have their staff bonded and take out a separate policy to cover that."

Theft by computer is something the insurance companies are now taking far more seriously, though, says one risk manager, "it is an area the industry hasn't developed as much as it should. The opportunity for fraud obviously exists, but it is our success in tracing those frauds that will save or lose us money. We're working on it, but because of the confidentiality of information involved, it is sometimes not as easy as we would like to get all the information we need."

This "emerging interest" in computer crime among insurance companies in Western Europe is confirmed by Frost and Sullivan's report on the Data Security Equipment and Services Market in Europe. "But as yet, there is not sufficient concrete evidence available to do more than quote for specifically defined risks on a case-by-case basis."

Kidnapping and ransom insurance is another specialist area. The EC is apparently considering whether to outlaw such policies. This followed a call last year by Dr Garret Fitzgerald, the former Irish Prime Minister, for a European ban on kidnapping and ransom business. An argument against such a move, put by Mr Alan Hoe, of Shield International, is that "by taking out k and r insurance, a victim, whether a company or an individual, is able to use the services of professional negotiators or advisers, so ensuring that less money changes hands."

Cassidy Davis, a Lloyd's underwriting agency looking after the affairs of three syndicates, insures most of the k and r business done in London, as well as writing exclusively product extortion policies, and is aware of the charge that its activities might encourage the crime. The total volume of the premium income for this class is currently $70m worldwide, $40m of which is underwritten at Lloyd's each year. The remainder is placed with US insurers such as Chubb's Federal Insurance and the American International Group. The $30m of premiums they earned in 1986 is double the figure five years ago.

The number of insureds covered by Cassidys has increased but the size of the premium paid has fallen, due partly to the use of prevention services provided by companies such as Control Risks. Yet many kidnap victims have not been insured. Of 2,542 kidnaps recorded by Control Risks since 1975, 99 were covered. Only three of the 14 payments over $5m recorded since 1973 were insured, and only 27 of the 115 kidnaps over the past 10 years in which a ransom of over $1m was paid were insured.

To counter possible objections, k and r policies contain a number of standard conditions, which generally apply also to product exortion:

- The policy is one of reimbursement. No insurer would ever pay or fund a ransom payment. Insurers only settle once an incident is over;
- The existence of a policy must never be disclosed. If it is disclosed, insurers have the right to void payment;

Co-operation with law enforcement agencies is conditional to the contract of the insurance;

- The policy limit is always less than the net worth of the insured;

As with any policy, underwriters would not reimburse any insured who had committed an illegal act;

It is also a requirement that clients establish procedures so that they are reasonably prepared for a kidnap attempt. Control Risks' services are often free when taking out such insurance.

The insurance industry should be using its influence more throughout the area of security, says Mr David Fletcher, chief executive of the British Security Industry Association. "We would like to see them insist on higher standards before taking on business. Too often they have the price of a service as a first consideration, believing that if they insist on a service costing more, the customer may go to another insurance company not so insistent."

Alastair Guild

WORLD MARKETS

FT-ACTUARIES WORLD INDICES

Jointly compiled by the Financial Times, Goldman, Sachs & Co., and Wood Mackenzie & Co. Ltd., in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS	FRIDAY SEPTEMBER 18 1987					THURSDAY SEPTEMBER 17 1987			DOLLAR INDEX		
Figures in parentheses show number of stocks per grouping	US Dollar Index	Day's Change %	Pound Sterling Index	Local Currency Index	Gross Div. Yield	US Dollar Index	Pound Sterling Index	Local Currency Index	1987 High	1987 Low	Year ago (approx)
Australia (93)	180.26	+1.3	161.43	163.17	2.30	177.98	160.26	161.59	180.26	99.92	79.54
Austria (16)	100.26	+2.1	89.79	94.06	2.19	98.23	88.45	92.64	101.62	85.53	95.65
Belgium (48)	127.98	+0.2	114.61	118.98	3.97	127.73	115.01	119.07	134.89	96.19	90.13
Canada (129)	135.04	+0.2	120.94	128.49	2.32	134.74	121.32	128.34	141.78	100.00	97.96
Denmark (39)	118.24	+2.1	105.89	111.77	2.53	115.80	104.27	110.05	124.83	98.18	96.75
France (121)	115.76	+1.1	103.67	109.27	2.57	114.55	103.15	108.80	121.82	98.39	95.23
West Germany (92)	101.89	−0.4	91.25	95.64	1.97	102.26	92.08	96.54	104.93	84.00	92.97
Hong Kong (45)	145.81	+1.8	130.58	146.03	2.48	143.28	129.02	143.56	147.36	96.89	76.96
Ireland (14)	143.50	+0.8	128.51	136.02	3.28	142.43	128.25	135.69	145.49	99.50	83.73
Italy (76)	88.75	+2.9	79.48	86.36	2.10	86.25	77.66	84.45	112.11	84.22	99.53
Japan (458)	142.53	+0.1	127.64	128.52	0.53	142.45	128.27	129.08	161.28	100.00	95.90
Malaysia (36)	171.01	−1.5	153.15	165.84	2.21	173.66	156.37	168.71	193.64	98.24	90.03
Mexico (14)	375.03	−0.9	335.86	635.15	0.47	378.59	340.90	638.49	422.59	99.72	60.39
Netherland (37)	124.19	+0.1	111.22	115.12	3.88	124.06	111.71	115.66	131.41	99.65	97.30
New Zealand (24)	138.87	+0.4	124.37	115.20	2.58	138.31	124.54	115.09	138.87	83.93	69.32
Norway (24)	184.40	+1.6	165.14	165.63	1.65	181.57	163.50	163.77	184.40	100.00	105.48
Singapore (27)	164.13	−1.5	146.99	157.70	1.55	166.65	150.06	160.59	174.28	99.29	89.15
South Africa (61)	182.45	+0.1	163.40	132.96	3.15	182.23	164.09	132.79	198.09	100.00	108.27
Spain (43)	165.14	−0.5	147.89	151.09	2.61	165.92	149.40	152.50	165.92	100.00	96.19
Sweden (33)	129.27	+0.1	115.77	121.57	1.90	129.12	116.27	121.86	132.10	90.85	97.05
Switzerland (53)	108.78	+0.4	97.42	100.96	1.64	108.31	97.53	101.09	110.00	92.00	92.64
United Kingdom (333)	158.01	+1.6	141.50	141.50	3.17	155.58	140.09	140.09	162.87	99.65	95.32
USA (586)	128.68	−0.1	115.24	128.68	2.85	128.76	115.94	128.76	137.42	100.00	96.52
Europe (929)	128.88	+1.0	115.42	118.55	2.78	127.58	114.88	118.00	128.88	99.78	95.13
Pacific Basin (683)	144.08	+0.1	129.03	130.27	0.68	143.87	129.55	130.69	158.77	100.00	94.61
Euro—Pacific (1612)	138.06	+0.5	123.64	125.57	1.46	137.42	123.73	125.61	145.65	100.00	94.82
North America (715)	129.02	+0.0	115.54	128.70	2.83	129.07	116.22	128.76	137.55	100.00	96.60
Europe Ex. UK (596)	110.78	+0.5	99.22	104.22	2.44	110.19	99.23	104.24	111.97	98.02	95.05
Pacific Ex. Japan (225)	163.32	+1.1	146.27	152.34	2.34	161.49	145.41	150.95	163.32	99.92	78.40
World Ex. US (1816)	138.58	+0.5	124.11	126.06	1.51	137.96	124.22	126.09	143.38	100.00	95.02
World Ex. UK (2069)	132.43	+0.1	118.59	125.77	1.87	132.27	119.11	125.97	138.82	100.00	95.63
World Ex. So. Af. (2341)	134.39	+0.3	120.36	127.16	1.99	134.04	120.69	127.20	139.47	100.00	95.51
World Ex. Japan (1944)	130.99	+0.4	117.30	126.63	2.79	130.50	117.51	126.41	134.03	100.00	95.43
The World Index (2402)	134.70	+0.3	120.63	127.23	2.00	134.35	120.97	127.28	139.73	100.00	95.58

Base values: Dec 31, 1986 = 100

EUROPEAN OPTIONS EXCHANGE

Series		Nov 87 Vol.	Nov 87 Last	Feb 88 Vol.	Feb 88 Last	May 88 Vol.	May 88 Last	Stock
GOLD C	$480	42	8.50	—	—	—	—	$461.50
GOLD P	$440	132	4.50	50	7.60B	—	—	"
GOLD P	$460	5	10	24	16.50	—	—	"
		Sept.87		Dec. 87		March 88		
SILVER C	$500	20	263	—	—	—	—	$763
SILVER C	$550	43	214	—	—	—	—	"
SILVER C	$700	121	75	—	—	—	—	"
[illegible]								

TOTAL VOLUME IN CONTRACTS: 37,765

A=Ask B=Bid C=Call P=Put

BASE LENDING RATES

ABN Bank 10 · Adam & Company 10 · Allied Arab Bk Ltd 10 · Allied Dunbar & Co 10 · Allied Irish Bank 10 · American Exp. Bk 10 · Amro Bank 10 · ● Charterhouse Bank 10 · Citibank NA 10 · City Merchants Bank 10 · Clydesdale Bank 10 · Comm. Bk. N. East 10 · Consolidated Crds 10 · Co-operative Bank *10 · Nat Bk. of Kuwait 10 · NatWestminster 10 · Northern Bank Ltd 10 · Norwich Gen. Trust 10 · PK Finans. Intl (UK) 10½ · Provincial Trust Ltd 11 · R. Raphael & Sons 10

[illegible]

LONDON RECENT ISSUES

FIXED INTEREST STOCKS

[illegible]

EQUITIES

[illegible]

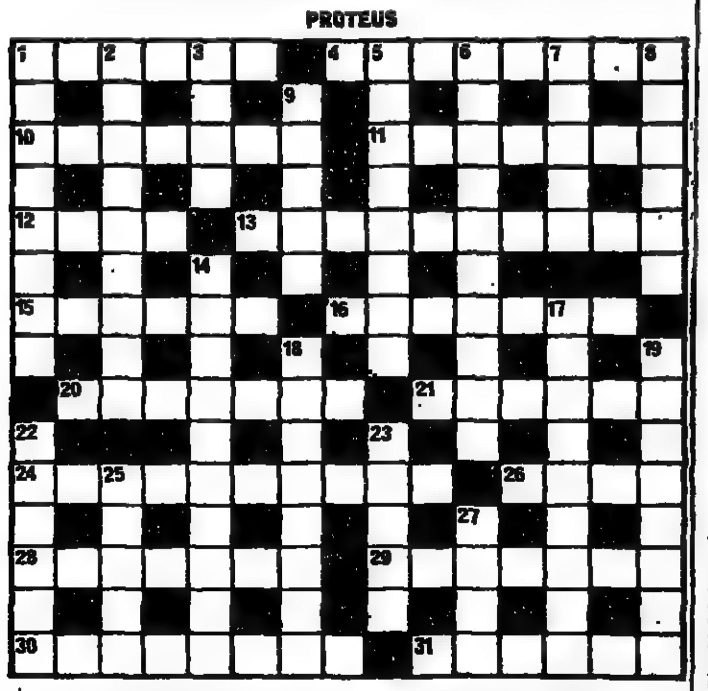
"RIGHTS" OFFERS

[illegible]

Renunciation date usually last day for dealing free of stamp duty. ... d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. F Dividend and yield based on prospectus or other official estimates for 1986/7. H Dividend and Yield based on prospectus or other official estimates for 1987. L Estimated annualised dividend, cover and p/e based on latest annual earnings. q Earnings based on preliminary figures. R Forecast annualised dividend, cover and p/e ratio based on prospectus or other official estimates. W Pro Forma Figures ‡ Indicated Dividends; cover relates to previous dividend; p/e ratio based on latest annual earnings. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. ¶ Issued by tender. ‖ Offered holders of ordinary shares as a "rights." ‖‖ Introduction. ** Issued by way of capitalisation. § Placing price. §§ Reintroduced. ¶¶ Issued in connection with reorganisation merger or takeover. ■ Allotment price. ‡ Unlisted securities market. †† Official London listing. ‡‡ Including warrants entitlement. ‡ Placing and offer for sale price. * Third Market. †Issued in £2 Units comprising 2 Ord Shares & 1 Warrant. (Exercisable at 50p into 1 Ord.)

FT CROSSWORD PUZZLE No. 6,435

PROTEUS



ACROSS

1 Warning once given about one wall-painting (6)
4 Acrobats needing glasses (8)
10 Adders that pick up rubbish (7)
11 A set run or a casual stroll? (7)
12 Out-and-out row (4)
13 Made up one's mind to get settled (10)
15 Diffident about Dan ordering drink (6)
16 Direct speech (7)
20 One who aims to hit worker with a grievance (7)
21 Warning given by flier in battle (6)
24 Novice subsequently getting in fuel as security (10)
26 Sun for example appearing over deserts (4)
28 One who has no illusions about a heel (7)
29 Empress who sat out in rainstorm? (7)
30 Tools for making bridges (8)
31 Put on a show about artist embracing model (6)

DOWN

1 Star wanting to enquire about esoteric rites (8)
2 Servant having to pay heed to a book (9)
3 He may employ one in some dangerous errand (4)
5 Shaky as Lawrence in Sunday outing (8)
6 Crime on university sports field causing extreme commotion? (4, 6)
7 Consumed at school it is said (5)
8 A long step on way to journey (6)
9 Item of property when fixed (5)
14 Flighty maid getting fair share of appreciative attention (10)
17 Shocking opening involving leading lady (9)
18 Tell-tale on watch (8)
19 Animal keeper having to suffer drawback (4-4)
22 Makes a hit with lots of people (6)
23 Ability to put up with punishment (5)
25 Animal going up a London thoroughfare (5)
27 Is unable to accept hypocritical talk? (4)

The solution to last Saturday's prize puzzle will be published with names of winners next Saturday.

FT UNIT TRUST INFORMATION SERVICE

AUTHORISED UNIT TRUSTS

[illegible]

FT UNIT TRUST INFORMATION SERVICE

Mercury Fund Managers Ltd (c)
33 King William St, EC4R 9AS 01-280 2860

American Growth	111.1	117.9	-0.9	0.98
(Accum Units)	116.3	123.0	-0.4	0.98
American Income	[illegible]	63.9	[illegible]	3.49
(Accum Units)	[illegible]	78.2	[illegible]	3.49
American Sm Cos Fd	30.5	32.9	-0.4	0.48
(Accum Units)	30.0	32.9	-0.4	0.48
Brush Bow Cap Fund	[illegible]	55.0	+0.1	2.35
(Accum Units)	[illegible]	55.9	+0.1	2.35
European Growth	161.3	170.0	+0.8	0.95
(Accum Units)	168.4	178.3	+0.9	0.95
European Income	[illegible]	91.2	+0.4	3.31
(Accum Units)	[illegible]	95.8	+0.4	3.31
Exempt	[illegible]	364.3	—	2.38
(Accum Units)	[illegible]	577.4	—	2.38
General	[illegible]	407.6	+5.3	1.27
(Accum Units)	[illegible]	684.5	+5.4	1.27
Gilt	[illegible]	87.9	+0.5	8.00
(Accum Units)	[illegible]	104.3	+0.6	8.00
Global Fund	[illegible]	56.0	+0.3	0.65
(Accum Units)	[illegible]	56.8	+0.3	0.65
High Income Fund	[illegible]	57.9	+0.4	4.72
(Accum Units)	[illegible]	58.8	+0.4	4.72
High Interest Fund	[illegible]	47.0	-0.4	10.20
(Accum Units)	[illegible]	48.4	+0.3	10.20
Income	[illegible]	136.0	+1.2	2.90
(Accum Units)	[illegible]	157.9	+1.4	2.90
International	[illegible]	324.3	+0.0	1.29
(Accum Units)	[illegible]	408.3	+0.0	1.29
Japan	[illegible]	218.0	+0.2	0.56
(Accum Units)	[illegible]	223.9	+0.2	0.56
Pacific Fund	61.6	64.9	+0.3	0.18
(Accum Units)	61.4	64.5	-0.3	0.15
Recovery	[illegible]	349.2	-3.8	1.85
(Accum Units)	[illegible]	379.8	+4.3	1.85
UK Smaller Co's Fund	[illegible]	60.0	+0.1	1.67
(Accum Units)	[illegible]	60.5	+0.1	1.67

Merlin Fund Managers Ltd
30 St James St, London SW1A 1HB 01-925 1277

Merlin Sept 8	[illegible]	437.5	—	1.07

Metropolitan Unit Trust Mngrs Ltd
3 Darkes Lane, Potters Bar EN6 1AJ 0707 45184

UK Income Fund	[illegible]	68.3	+0.5	4.33
Accum Units	[illegible]	70.0	+0.5	4.29
UK Growth Fund Acc	[illegible]	68.4	+1.2	1.46
Global Income Fund	[illegible]	51.3	+0.4	3.75
Accum Units	[illegible]	53.9	+0.4	3.75
Global Growth Fund	50.4	53.6	—	0.47

Midland Bank Group UT Mngrs. Ltd
Courtwood House, Silver St, Head, Sheffield S1 3RD
Tel: 0742 769842

Capital	[illegible]	140.7	+1.5	3.09
(Accum Units)	[illegible]	194.3	+2.0	3.09
Commodity & Gen.	[illegible]	217.7	+1.3	3.24
(Accum Units)	[illegible]	310.8	+1.8	3.24
European Growth	[illegible]	146.1	+0.3	0.95
(Accum Units)	[illegible]	176.3	+0.2	0.95
Extra High Inc	[illegible]	79.6	+0.6	6.29

Provident Mutual Unit Trust Managers Ltd.
25-31 Moorgate, London, EC2R 6AA. 01-588 3963

PM Equity Growth	123.5	131.4	+1.0	0.98
PM Income and Growth	106.3	113.1	+0.8	2.93
PM N.American Growth	57.9	60.9	-0.3	0.34
PM European Growth	53.1	56.4	+0.3	0.95
PM Japan Growth	70.1	74.5	-0.3	0.36
PM Overseas Growth	56.4	60.0	-0.3	0.43

Prudential Unit Trust Mngrs Ltd (a) (b) (c)
51-69 Ilford Hill, Ilford, Essex IG1 2DL 01-478 3377
Holborn Lynkline 0800 010345

Holborn Capital Tst	83.7	88.5	+0.9	0.95
Holborn Equity Income	75.38	79.6	+0.9	3.71
Holborn Equity Tst	608.8	644.2	+4.0	2.10
Holborn European Tst	127.7	135.1	+0.3	4.12
Holborn Gilt Tst	209.9	218.0	+2.8	2.37
Holborn High Inc Tst	90.8	96.0	+0.4	4.49
Holborn Ind Grth Tst	125.3	132.5	+0.2	0.66
Holborn Ind Sm Cos	—	50.0	—	0.05
Holborn Japanese Tst	136.3	144.2	-0.3	0.40
Holborn N. Amer. Tst	94.9	100.4	-0.4	0.48
Holborn Sm Cos Tst	82.5	87.3	+0.9	1.33
Holborn Spec Sits Tst	159.9	176.2	+1.4	1.26
Holborn UK Growth Tst	121.9	128.8	+1.9	1.46

Quilter Management Co Ltd
31-45 Gresham Street, London EC2 01-600 4177

Quadrant Gen. Fd	684.1	724.0	+13.3	1.35
Quadrant Income	342.7	362.7	+8.4	3.68
Quadrant Intl. Fund	462.0	488.9	+4.4	1.02
Quadrant Spec. Sits	487.2	515.6	+11.7	1.28

Reliance Unit Mgrs. Ltd
Reliance House, Tunbridge Wells, Kent 0892 510033

British Life	251.2	267.1	+2.0	2.26
Reliance Unit Tst (Inc)	175.3	186.4	+1.6	1.41
Reliance Ut Tst (Acc)	235.9	250.9	+2.2	1.41

Sansbury Fund Managers
Silkhouse Ct., Tithebarn St., Liverpool. 051-227 2030

Internat. Growth Trust	51.2	53.9	+0.1	1.5

N.M. Rothschild Fund Mgmt
St Swithin's Lane, London EC4 01-634 2981/4

NC America (Inc)	326.7	347.5	-2.3	0.68
NC America (Acc)	360.4	383.4	-2.4	0.68
NC Inc Fd.	130.7	139.0	+1.1	2.90
NC Japan Fd.	217.5	231.3	+1.7	0.00
NC Major UK Cos Fd	72.8	77.4	+0.5	1.76
NC Smllr Australasia	96.4	102.5	—	.61
NC Smllr Canadian CoFd	52.6	53.9	-0.4	1.07
NC Smaller Cos	256.0	272.3	+1.9	0.76
NC Smaller European	205.2	218.2	+0.8	0.41
NC Prop.*	157.2	171.4	—	(z)

*Unauthorised Unit Trusts

Royal Bank of Canada Fds.
RBC Trust Managers Limited.

Standard Life Trust Mgmt. Ltd
3 George St, Edinburgh EH2 2XZ

Managed Acc.	31.7
UK Equity Growth Acc	38.0
UK Equity High Inc Inc	37.5
UK Equity General Acc	40.0
UK Equity General Inc	39.2
UK Large Compan's Acc	259.1
UK Larger Compan's Inc	240.3
Gilt and Fixed Int Inc	26.4
Overseas Larg. Cos Acc	205.5
North American Acc	29.4
Far East Acc	40.4
European Acc	29.9

Stewart Ivory Unit Trust Mgrs Ltd (a)
45 Charlotte Sq, Edinburgh

American Fund	262.6
(Accum. Units)	279.0
(Withdrawal Units)	161.6
American Fund Sept 1	339.0
Australian Fund	244.4
(Accum. Units)	249.5
British Fund	938.5
(Accum. Units)	1315.2
European Fund	336.5
(Accum. Units)	355.0
Japan Fund	79.8
(Accum Units)	80.3
Saints PPP Aug 26	243.1

Sun Alliance Fund Management Ltd
Sun Alliance House, Horsham

Equity Tst	568.5
North America	65.0
Far East	112.2
Worldwide Bond	47.0
Worldwide Financial	44.8
Worldwide Technology	49.1
European	58.6
Equity Income	76.1

Sun Life of Canada Unit Mgrs Ltd
Basingview, Basingstoke, Hants

UK Income Fund	36.8
UK Growth Fund	35.5
Worldwide Growth Fd	25.8

Sun Life Trust Mgmt. Ltd
101, Cannon St, London EC4N 5AD
Admin & Enq: 01-606 4044

Master Portfolio	34.5
American Growth Acc	38.3
American Income Acc	34.5
American Income Inc	32.9
European Growth Acc	60.6
European Income Acc	30.7
European Income Inc	29.8
Far East Growth Acc	81.6
Int. Growth Acc	49.7

INSURANCES

Continued on next page

FT UNIT TRUST INFORMATION SERVICE

Manufacturers Life Insurance—Contd.

Gilt Edged Int	225.2		—
Do. Accum.	277.3		—
Guaranteed Int	159.0		—
Do. Accum	195.8		—
International Int.	512.3		—
Do. Accum.	630.8		—
Index Lk. Gilt Int.	135.3		—
Do. Accum.	166.5		—

Merchant Investors Assurance
Leon House, 233 High St, Croydon 01-686 9171

Property	320.1	+0.1	—
Property Pens.	490.2	+0.4	—
Equity	190.7	+1.5	—
Equity Pens.	908.1	+4.0	—
Money Market	297.7	+3.1	—
Money Mkt. Pens.	536.1	+5.5	—
Deposit	239.2	+0.1	—
Deposit Pens.	382.8	+0.2	—
Managed	300.2	+1.7	—
Managed Pens.	581.9	+4.8	—
Intl. Equity	357.6	+0.2	—
Do. Pens.	382.8	+0.6	—
Intl. Managed	327.7	+0.5	—
Do. Pens.	490.2	+1.2	—
North American	133.0	-0.1	—
Do. Pens.	152.9	-0.1	—
Far East	296.6	-2.1	—
Do. Pens.	438.3	-4.8	—
Intnl. Currency	168.5	-0.2	—
Do. Pens.	216.7	-0.3	—
Index Linked	129.5	+0.8	—
S & C Managed Fd	140.0	+0.3	—
S & C Pens Mngd Fd	114.2	+0.3	—
Bell Chambers	130.0	+0.0	—
Loran & Loran	118.4	+0.1	—

Trustlink Life Funds

Per Worldwide Rec	171.7	-0.3	—
Per Far East Growth	224.2	-0.8	—
Per Intl Growth	164.7	-0.7	—
[illegible]	177.5	+1.0	—

Norwich Union Asset Management Ltd
PO Box 124, Norwich NR1 1JS 0603 683986

NUAM Funds

Managed Fund	57.8	60.9	+0.3	—
Stock Market Mngd Fund	59.6	62.8	+0.2	—
Equity Fund	64.8	68.3	+0.4	—
International Fund	55.4	58.4	-0.1	—
European Fund	59.8	63.0	—	—
North American Fund	50.5	53.2	-0.2	—
Pacific Fund	64.2	67.6	+0.1	—
Property Fund	52.2	55.0	—	—
Fixed Interest Funds	48.8	51.4	+0.7	—
Index linked Sec Fund	45.6	48.1	+0.1	—
Deposit Fund	51.4	54.2	+0.2	—

NUAM Retirement Plans

Mixed Fund	61.9	65.2	+0.3	—
UK Ordinary Share	74.4	78.4	+0.5	—
International Fund	57.1	60.2	-0.1	—
Property Fund	52.2	55.0	—	—
Fixed Interest Fund	50.1	52.8	+0.6	—
Index Linked Sec Fund	46.1	48.6	+0.2	—
Deposit Fund	53.4	56.3	—	—

NUAM (NF)

Managed Fund	795.1	837.0	+3.4	—
Equity Fund	1731.7	1823.0	+13.0	—
Property Fund	324.9	342.0	+0.5	—
Fixed Interest Fund	359.7	378.7	+5.2	—
Deposit Fund	210.2	221.3	+1.0	—
International Fund	143.8	151.4	-0.2	—
Index Linked Sec Fund	45.7	48.2	+0.2	—

Norwich Union Life Insurance Soc.
PO Box 4, Norwich NR1 3NG 0603 622200

Pensionmaster & Unit-Linked Plan

Fixed Interest Fund	248.0	261.0	—	—
Index-Linked Sec Fund	129.7	136.5	—	—
Ordinary Share Fund	534.3	562.4	—	—
International Fund	148.1	155.8	—	—
Property Fund	162.8	171.5	—	—
Deposit Fund	167.4	176.2	—	—
Mixed Fund	343.0	361.0	—	—
Norwich Units Sep 15		1018.4		

Provincial Life Assurance Co Ltd
Stramongate, Kendal, Cumbria LA9 4BE

Managed Fd	590.2
Cash Fd	209.9
Property Fund	227.1
Equity Fund	702.3
Fxd. Int. Fund	272.7
International	330.8
High Income	498.9
Far East	455.4
North American	261.3
Special Sits.	673.6
Technology	291.8
Extra Inc Fd.	285.4
Convertible & Gilt Fd	165.7
American Income	115.4
Gilt Fund 20	271.3
European Fund	111.4
Managed Pens. Acc.	545.6
Deposit Pens. Acc.	206.5
Property Pens. Acc.	217.1
Fix. Int. Pens. Acc.	325.2
Equity Pens. Acc.	755.6
International Pens Acc.	298.4
High Inc Pens Acc.	500.7
Tech Pens Acc	192.0
N American Pens Acc.	183.4
Far Eastern Pens Acc.	435.9
Special Sits Pens Acc.	531.8
Extra Income Pens Fd.	318.6
Convertible & Gilt Pen	175.9
American Int Pens.	126.9
European Pens	115.7

Broker Funds

KSA Managed Fund	163.3
McKenna Mngd Fund	171.3
Acorn Managed Fund	180.2
Portfolio 2000	174.3
Allied Anglo Mngd Fd.	146.5
Brian Foster Mngd. Fds.	145.6
Archer Managed	139.0
Buxton Intnl Managed	123.0
BFP PR Inv Port.	122.4

OFFSHORE AND OVERSEAS

MANAGEMENT SERVICES

FT UNIT TRUST INFORMATION SERVICE

LONDON SHARE SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

Five to Fifteen Years

Over Fifteen Years

Undated

BRITISH FUNDS—Contd

Index-Linked

INT. BANK AND O'SEAS GOVT STERLING ISSUES

CORPORATION LOANS

COMMONWEALTH & AFRICAN LOANS

LOANS

Building Societies

Public Board and Ind.

Financial

FOREIGN BONDS & RAILS

Interest Due		Stock	Price £	Last xd	Div % Gross	Red. Yield
1Apr	1Oct	Greek 7pc Ass.	53	1.5	3.50	6.60
1Feb	1Aug	Do. 6pc 28 Stb. Ass.	52	3.8	3	5.77
1Apr	1Oct	Do 4pc Mixed Ass.	50	1.4	2	4.23
1May	1Nov	Hung. '24 Ass.	65	5'85	2.75	4.20
31May	30Nov	Hydro Quebec 15pc 2011	132	3.6	15.00	11.09
31Jan	31Jly	Iceland 14½pc Ln 2016	126	13.00	14.50	11.54
1Mar	1Sept	Ireland 9¾pc '91-96	95	10.8	9.75	11.60

AMERICANS

Dividends Paid	Stock	Price £	Last xd	Div Gross	C'vr	Y'ld Gr's
Fb My Ag Nv	Abbott Laboratories	35	13.00	$1.00	—	1.7
F My Ag N	Alcoa $1	35	28.4	$1.20	—	2.1
—	Allegheny & W $0.01	12	—	30c	—	1.5
	Amax $1	15	5'85	—	—	—
Nv Mr Jn Ag	Amdahl 5c	26	5.11	20c	—	0.5
Mr Je Se De	Amer. Cyanamid $5	29	25.8	$1.90	—	3.9
Fb My Ag Nv	Amer. Express $0.60	21	12.1	$1.44	—	4.1
Fb My Au Nv	Amer. Medical Int. $1	10	10.4	72c	—	4.3
Fb My Ag Nv	American T. & T. $1	19	25.9	$1.20	—	3.8
Fb My Ag Nv	Ameritech $1	56	29.12	$4.72	—	5.1
—	Amfac	24	11'84	—	—	—
—	Anheuser-Busch $1	21	—	$2.00	—	5.6
—	ArldTech	89p	—	—	—	—
—	BankAmerica $1	6	11'85	—	—	—
Ap Jly Oc Jan	Bankers N.Y. $10	27	26.3	$1.66	—	3.7
Ja Ap Jy Oct	BASIX Corp.	382p	18.6	12c	—	2.4
My Au N Fb	Bell Atlantic $1	45	25.9	$3.84	—	5.2
—	BellSouth Corp.	24	7.7	$2.04		5.1
Mar Jun S D	Bethlehem Steel $8	10	4.11	—	—	—
—	Bio-Rad Labs. Inc. 'A'	14	—	—	—	—
Oc Ja Ap Jy	Bowater Inc.	22	5.6	80c	—	2.1
Ja Ap Jy O	Browning-Ferris 16⅔c	19	15.06	40c	—	1.3
F My Au N	Brunswick	16	21.7	30c	—	1.1
Jan Ap Jly O	CPC Intnl. 25c	32	25.9	$1.24	—	2.3
Mr Ju Se De	CSX Corp U.S.$1.00	22	19.8	$1.16	—	3.1
Mr Ja Sp De	CalFed Inc $1.00	19	11.8	60c	—	1.9
Oc Ja Ap Jy	Campbell Soup 30c	39	13.00	$1.44	—	2.2
F My Au N	Caterpillar Inc $1.00	40	15.7	50c	—	0.8
Ja Ap Jy Oc	Cenergy Corp. 25c	612p	30.8	4c	—	0.4
Fb My Ag Nv	Chase Manhattan $12.5	22	7.5	$2.16	—	5.9
Ap Jy Oc Ja	Chemical New York	23	10.9	$2.72	—	7.3
Mar Jun S D	Chrysler $6¼	26	10.6	$1.00	—	2.3
My Au N F	Chicorp $4	34	27.4	$2.46	—	4.3
Fb My Ag Nv	CityFed Fin. Corp.	446p	29.10	40c	—	5.5
F My Au N	Colgate-Palmolive $1	29	21.10	$1.48	—	3.1
June	Colt Inds. $1	1337p	6'86	—	—	—
Fe My Au Nv	Cons Freightways $0.625	21	03.01	82c	—	2.3
Dc Mr Jn Sp	Contl Illinois Corp $1	318p	4.3	—	—	—
—	Cont Illinois Hldgs $1	22	—	8c	—	21.7
F My Au N	NYNEX $1	45	26.3	$3.48	—	4.7
Ja Ap Jy Oct	PHH	22	29.6	$1.04	—	2.8
Feb My Ag Nv	Pacificorp $3.25	28	15.10	$2.52	—	7.5
—	Pacific Telesis $0.10	17	12'85	$1.64	—	5.7
Fe My Au No	Pall Corp. 25c	20	13.7	34c	—	1.0
Mar Jun S D	Pennzoil 83c	42	26.8	$2.20	—	3.2
F Apr Au N	Pillsbury	26	29.7	$1.12	—	2.6
—	Primerica $1.00	26	—	$1.60	—	3.6
Jly Oc Jan Apr	Quaker Oats $5	33	18.6	80c	—	1.5
My Jn Se De	RJR Nabisco Inc.	39	5.8	$1.60	—	2.5
Jan Apr Jly O	Rep NY Corpn $5	33	10.9	$1.16	—	2.3
Mar Jun S D	Rockwell Intl. $1	14	14.5	66c	—	2.8

Continued on next page

Money Market Bank Accounts

	Gross	Net	Gr Equiv CAR	Int. Cr
ANZ Finance High Interest Cheque Acc				
Minerva Hse, Montague Ct, London, SE1			01-378 2576	
£250-£2,500	9.00	6.08	9.42	Qr
£2,500+	10.00	7.55	10.40	Qr
Adam & Co. plc				
22 Charlotte Sq, Edinburgh EH2 4DF			031-225 8484	
Full Service Chq Acc	9.00	6.75	9.46	Qr
Aitken Hume				
30 City Road, EC1Y 2AY.			01-638 6070	
Treasury Acc	9.25			Qr
Multi Chq £1000-£5000	9.00			Mth
Mlt. Int. Chq. £5,000+	9.25			Mth
AAB—Allied Arab Bank Ltd				
97-101 Cannon St, London, EC4N 5AD			01-629 6802	
HICA, HICMA	9.75	7.34	10.43	Mth
Bank of Scotland				
38 Threadneedle St, EC2P 2EH.			01-628 8060	
Money Mkt Cheque Acc.	9.10	6.84	9.48	Mth
Barclays Prime Account				
PO Box 125, Northampton			0604 252891	
High Int. Cheque	8.875			Qr
Benchmark Trust Ltd Premier Account				
9 Henrietta Place, W1M 9AG.			01-631 3313	
£5,000-£10,000	9.00	6.77	9.43	6-mth
£10,000-£20,000	9.75	7.34	10.23	6-mth
£20,000+	10.00	7.55	10.50	6-mth
Brown Shipley & Co Ltd				
Founders Court, Lothbury, London EC2			01-606 9833	
Demand Acc	9.1			Qtr.
Charterhouse Bank Limited				
1 Paternoster Row, EC4M 7DH.			01-248 4000	
Sterling	9.13		9.71	Mth
U.S. Dollar	6.75			Mth
German Marks	3.38			Mth
Swiss francs	3.00			Mth
Japanese Yen	3.00			Mth
Citibank Savings				
St Martins Hse, Hammersmith Grove W6			01-741 4941	

Money Market Trust Funds

UNIT TRUST NOTES

LONDON SHARE SERVICE

AMERICANS—Continued

Dividends Paid	Stock	Price £	Last xd	Div Gross	C'vr	Yld Gr's
Oc Ja Ap Jy	Sara Lee $1	27	13.00	$1.00	—	2.3
Mr Je Se De	Saul (B. F.) $1	11¼	10.9	20c	—	1.1
Fb My Ag No	Southwestern Bell $1	23⅝	7.7	h$2.32	—	6.0
—	Staley Continental	18¼	—	80c	—	2.7
Mr Je Se De	Sun Co. Inc. $1	34⅝	5.8	$3.00	—	5.3
Ma Je Se De	TRW Inc. $0.625	58¼	11.8	h$1.60	—	—
Mr Jn Sp Dc	Tenneco $5	32⅝	11.8	$3.04	—	5.7
June Dec	Do. 10pcLn.Stk. 91-5	202½	13.00	10%	—	5.0
Mr Je Se De	Texaco $6.25	24	31.7	$3.00	—	7.6
Mr Jn Se De	Time Inc. $1	69	22.8	$1.00	—	1.0
Ja Ap Jy Oc	Tracor $0.33	19	16.9	40c	—	1.3
Ja Ap Ju Oc	Transamerica $1	25⅞	30.6	$1.76	—	4.2
Fe My Au No	Transworld Corp $5	12¾	11.11	20c	—	1.0
Mc Je Se De	TRINOVA Corp.	25	11.8	h$1.00		2.7
Mr Je Se De	USX $1	21⅝	30.10	$1.20	—	3.4
Ag Nv Fb Ja	Union Carbide $1	16¼	4.8	$1.50	—	5.5
Mr Je Sp Dc	Utd. Technologies	32½	19.5	$1.40	—	2.6
Fb My Ag No	US West	33	13.4	$3.28	—	6.1
—	Waste Management $1	27	—	—	—	—
—	Whirlpool $1.0	$27¾	—	—	—	—
Mr Je Se De	Woolworth $3½	30⅞	19.11	$1.32	—	2.6

CANADIANS

Dividends Paid	Stock	Price £	Last xd	Div Gross	C'vr	Yld Gr's
—	ABM Gold Corp	342p	—	—	—	—
—	Abbot Energy Corp.	28	—	—	—	—
—	Amer. Barrick Res.	17¼	—	—	—	—
—	Amer. Daleco	86p	—	—	—	—
—	American Lightwave	45p	—	—	—	—
—	Arcastro	80p	—	—	—	—
Fb My Ag Nv	Bk. Montreal	14⅝	24.11	$2.00	—	6.3
Ja Ap Jn Oc	Bk. Nova Scot.	765p	30.6	72c	—	4.5
Ap Jn Oc Ja	BCE	17⅝	10.9	$2.40	—	6.2
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

BANKS, HP & LEASING

[illegible]

Hire Purchase, Leasing, etc.

[illegible]

BEERS, WINES & SPIRITS

[illegible]

BUILDING, TIMBER, ROADS

[illegible]

BUILDING, TIMBER, ROADS—Cont

[illegible]

CHEMICALS, PLASTICS

[illegible]

DRAPERY AND STORES

[illegible]

DRAPERY AND STORES—Cont.

[illegible]

ELECTRICALS

[illegible]

ENGINEERING

[illegible]

ENGINEERING—Continued

[illegible]

FOOD, GROCERIES, ETC

[illegible]

HOTELS AND CATERERS

[illegible]

INDUSTRIALS (Miscel.)

[illegible]

INDUSTRIALS—Continued

[illegible]

INDUSTRIALS—Continued

[illegible]

INSURANCES

[illegible]

LONDON SHARE SERVICE

INSURANCES—Continued

Dividends Paid		Stock	Price	Last xd	Div Net	C'vr	Y'ld Gr's	P/E
Jan	July	PWS Holdings 10p	374	1.6	†9.25	2.9	3.4	14.8
Oct. June		Pearl Group 5p	445xd	14.9	†10.5	—	3.2	—
Nov.	May	Prudential	£10½	6.4	†29.0	—	3.9	—
Nov.	May	Refuge 5p	560xd	14.9	15.75	—	3.8	—
Jan.	May	Royal	586	23.3	†+15.5	—	3.7	—
—		Sabre Ins. Invs.	283	—	—	—	—	—
April	Oct.	Sedgwick Group 10p	279xd	14.9	12.0	1.7	5.6	12.6
May	Nov.	Steel Burrill J. 10p	258xd	14.9	†9.0	2.0	5.2	13.3
Nov.	July	Stewart Wr. 20p	548	11.5	†13.0	2.0	3.2	19.5
Mar	Sept	Sturge Hldgs 20p	528	27.7	†6.0	2.5	1.6	34.6
Jan.	July	Sun Alliance	£11½	11.5	†21.5	—	2.8	—
June	Nov.	Sun Life 5p	£12½	6.4	†28.5	—	3.2	—
April		♦Taisho M EDR	£46½	25.3	Q10%	—	0.9	—
Fb My Au	Nv	Torchmark $1.00	£28½	10.7	Q$1.00	—	3.3	—
Nov.	May	Trade Indemnity	388	6.4	14.5	—	1.6	—
Mr Jn Se	De	Travelers $1.25	£26¼	28.7	$2.28	—	5.9	—
—		USF & G Corp $2.50	£25¾	—	Q$2.48	—	6.0	—
Dec.	June	USLIFE Corp. $1.0	£25¾	5.8	Q$1.20	3.2	3.1	5.2
June	Nov	♦Utd Friendly B 10p	725	1.6	21.0	—	4.0	—
May	Nov	Willis Faber 12½p	364	27.4	†10.75	2.4	4.1	13.7
Mar.	July	Windsor Secs. 10p	128	27.12	†0.7	3.5	0.8	—

LEISURE

MOTORS

Motors and Cycles

Commercial Vehicles

Components

Garages and Distributors

NEWSPAPERS, PUBLISHERS

PAPER, PRINTING, ADVERTISING

PAPER, PRINTING—Continued

PROPERTY

SHIPPING

SHOES AND LEATHER

SOUTH AFRICANS

TEXTILES

TEXTILES—Cont.

TOBACCOS

TRUSTS, FINANCE, LAND

Investment Trusts

FINANCE, LAND—Cont.

Finance, Land, etc

OIL AND GAS

OIL AND GAS—Continued

OVERSEAS TRADERS

PLANTATIONS

Rubbers, Palm Oil

Teas

MINES

Central Rand

Eastern Rand

Far West Rand

O.F.S.

Diamond and Platinum

Central African

Finance

Australians

MINES—Continued

Tins

Miscellaneous

THIRD MARKET

NOTES

Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Estimated price/earnings ratios and covers are based on latest annual reports and accounts and, where possible, are updated on half-yearly figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation and unrelieved ACT where applicable; bracketed figures indicate 10 per cent or more difference if calculated on "nil" distribution. Covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Yields are based on middle prices, are gross, adjusted to ACT of 27 per cent and allow for value of declared distribution and rights.

- ● "Tap Stock".
- * Highs and Lows marked thus have been adjusted to allow for rights issues for cash.
- † Interim since increased or resumed.
- ‡ Interim since reduced, passed or deferred.
- ‡‡ Tax-free to non-residents on application.
- [illegible] Figures or report awaited.
- [illegible] Not officially UK listed; dealings permitted under Rule 535(4)(a).
- ♦ USM; not listed on Stock Exchange and company not subjected to same degree of regulation as listed securities.
- ‡‡ Dealt in under Rule 535(3).
- [illegible] Price at time of suspension.
- ¶ Indicated dividend after pending scrip and/or rights issue: cover relates to previous dividend or forecast.
- ♦ Merger bid or reorganisation in progress.
- [illegible] Not comparable.
- [illegible] Same interim: reduced final and/or reduced earnings indicated.
- [illegible] Forecast dividend; cover on earnings updated by latest interim statement.
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ★ Cover does not allow for shares which may also rank for dividend at a future date. No P/E ratio usually provided.
- ‖ No par value.

B.Fr. Belgian Francs. Fr. French Francs. §§ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Annualised dividend. b Figures based on prospectus or other offer estimate. c Cents. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend and yield exclude a special payment. t Indicated dividend: cover relates to previous dividend, P/E ratio based on latest annual earnings. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. v Subject to local tax. x Dividend cover in excess of 100 times. y Dividend and yield based on merger terms. z Dividend and yield include a special payment: Cover does not apply to special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1986-87. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1986. K Dividend and yield based on prospectus or other official estimates for 1987-88. L Estimated annualised dividend, cover and p/e based on latest annual earnings. M Dividend and yield based on prospectus or other official estimates for 1985-86. N Dividend and yield based on prospectus or other official estimates for 1987. P Figures based on prospectus or other official estimates for 1987. Q Gross. R Forecast annualised dividend, cover and p/e based on prospectus or other official estimates. T Figures assumed. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xc ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Albany Inv 20p	98	—	Fin. 13% 97/02	£105¾	+5
Craig & Rose £1	713	—	Arnotts	300	+5
Finlay Pkg. 5p	110	−1	CPI Hldgs.	85xd	—
Holt (Jos) 25p	610xd	—	Carroll Inds.	288	−2
IoM Stm. £1	280	−5	Dublin Gas	406	—
			Hall (R. & H.)	139xd	−1
IRISH			Heiton Hldgs.	62	−3
Fund 11¾% 1988	£100¾	—	Irish Ropes	228	+3
Exc. 9¾% 84/89	£97¾	—	Unidare	420	−5

TRADITIONAL OPTIONS

3-month call rates

Industrials	p		
Allied-Lyons	40	NEI	13
Amstrad	19	Nat West Bk	65
BAT	62	P & O Dfd	65
BOC Grp	50	Plessey	20
BSR	17	Polly Peck	34
BTR	36	Racal Elect	32
Babcock	32	RHM	35
Barclays	52	Rank Org Ord	70
Beecham	52	Reed Intnl	50
Blue Circle	50	STC	30
Boots	30	Sears	16
Bowaters	50	TI	37
Brit Aerospace	50	TSB	12
Brit. Telecom	28	Tesco	18
Burton Ord	32	Thorn EMI	65
Cadburys	25	Trust Houses	25
Charter Cons.	45	Turner Newall	26
Comm Union	34	Unilever	62
Courtaulds	45	Vickers	20
FNFC	32	Wellcome	42
Gen Accident	95	**Property**	
GEC	22	Brit Land	30
Glaxo	200	Land Securities	58
Grand Met	50	MEPC	48
GUS 'A'	125	Peachey	40
Guardian	95	**Oils**	
GKN	38	Brit Petroleum	32
Hanson Tst.	17	Britoil	30
Hawker Sidd	58	Burmah Oil	52
ICI	125	Charterhall	10
Jaguar	52	Premier	11
Ladbroke	45	Shell	125
Legal & Gen	32	Tricentrol	11
Lex Service	45	Ultramar	26
Lloyds Bank	35	**Mines**	
Lucas Inds	75		
Marks & Spencer	22	Cons Gold	125
Midland Bk	45	Lonrho	28
Morgan Grenfell	55	Rio T Zinc	100

A selection of Options traded is given on the London Stock Exchange Report Page.

DIARY DATES

BUSINESSMAN'S DIARY

Trade Fairs and Exhibitions:UK

September 22-23
The Home Video Products & Services Exhibition - Vidtel 87 (021-780 4171)
NEC, Birmingham

September 26-October 1
Automotive Trade Show (01-235-7000)
Earls Court

September 27-30
Harrogate Fashion Fair (01-637 2400)
Harrogate Exhibition Centre

September 29-October 1
Fashion Fabrex Exhibition (01-385 1200)
Olympia

October 1-3
"Building a Better Britain" Exhibition (01-724 5012)
Business Design Centre, London

October 6-8
Transport and Distribution Services Show (01-900 1234)
Wembley Conference Centre

October 13-16
Meeting Place for Technology Transfer Exhibition - BARCLAYS TECHMART (021-780 4171)
NEC, Birmingham

October 15-17
Money Show (0895 58431)
Liverpool

October 18-21
International Video and Communications Exhibition (01-240 1871)
Metropole Exhibition Hall, Brighton

October 20-23
International Feight Industry Conference and Exhibition - WORLD FREIGHT (01-642 7688)
Barbican Centre, London

October 26-28
UK Corrosion Exhibition and Conference (0202 35544)
Metropole Exhibition Hall, Brighton

November 3-7
International Plastics Exhibition - INTERPLAS (021-705 6707)
NEC, Birmingham

November 8-10
Camping and Outdoor Leisure Exhibition -COLA (08956 34191)
Exhibition Centre, Harrogate

Overseas

September 21-24
International Hotel and Catering Fair- IGAFA(01-486 1951)
Munich.

September 21-25
International Industrial Maintenance and Cleaning, Municipal Refuse Disposal and Destruction etc Trade Fair (01-741 4437)
Amsterdam

September 29-30
Display and Incentives Exhibition (Dublin 900600)
Dublin

September 30-October 4
Overseas Import Fair "Partners for Progress" (01-930 7251)
Berlin

October 6-10
Machine Tools Exhibition - FINNTEC (01-486 1951)
Helsinki

October 10-15
International Photographic Cinegraphic and Optical Equipment Exhibition (01-255 5566)
Paris

October 14-17
International Electronics Fair (01-977 4551)
Vienna

October 24-November 1
National Transportation Fair - BRASIL TRANSPO (01-499 0877)
Sao Paulo

Business and Management Conferences

September 21-23
The Third International Asia-Pacific Petroleum conference (Singapore 7349385)
Singapore

September 24
Tolley Conferences: Payroll manager's review-first annual updating (01-680 5682)
London Press Centre

September 24-25
The Economist: Asian investment outlook: analysing the trends and assessing the opportunities (01- 839 7000)
Grand Hyatt Hotel, New York

September 25
Institute of Directors: Beating the competition - strategies of success in the 1990's (01- 839 1233)
116 Pall Mall, SW1

September 29
Information for Energy Group:Energy statistics (01-636 1004)
61 New Cavendish Street, W1

September 29-30
Acquisitions Monthly/Business Research International:How to buy and sell companies (01 637 4383)
Hotel Inter-Continental,W1

September 29-October2
RDMP:EPoS with EFTPOS congress and exhibition in retailing and distribution (0273 203581)
Barbican Centre,EC2

September 30
I.P. Sharp *Associates*: Market opportunities for stock lending and the role of technology (01-222 7033)
Stationers Hall, EC4.

October 4-8
IPM:Selecting managers-advanced interviewing and assessment skills (01-946 9100)
Bristol

October 5-6
Securities Industry Association: First international conference - international capital markets: opportunities and challenges (New York (212) 608-1604)
New York City

October 11-13
Philadelphia Stock Exchange: The 1987 international foreign currency options symposium - the practical and political uses of foreign currency options (01-606 2348).
Four Seasons Hotel, Philadelphia

October 12-13
Longman Seminars: 7th annual UK tax congress - Today's tax traps and how to avoid them (01-242 4111)
Kensington Town Hall, W8

Anyone wishing to attend any of the above events is advised to telephone the organisers to ensure that there has been no changes in the details published

FINANCIAL

TODAY

COMPANY MEETINGS-
BTS Group, Royal Angus Hotel, Birmingham, 10.30
Nobo Group, Grand Hotel, Eastbourne, 12.00
BOARD MEETINGS-
Finals;
Armstrong Equipment
China & Eastern Inv.
Green (Ernest)
Star Computer
Interims;
Antler
Beatson Clark
British Syphon Inds.
Connells Estate Agents
East Lancashire Paper
Kellock Tst.
Kleinwort Benson Lonsdale
Marshalls Universal
Morgan Crucible
Ransomes Sims & Jefferies
Spring Ram
Sumit
Tarmac
DIVIDEND & INTEREST PAYMENTS-
AMS Inds. 0.6p
Abbey National Bldg. Society Flg. Rate Nts. 1991 £233.84
Christiania Bank OG Kreditkasse Reverse Flg. Rate Nts. 1997 $279.08
Enron Corp. 62cts.
European Assets Tst. Reg. Fl. 0.04
Do. Br. Fl. 0.04
Independent Inv. 2.5p
Industrias Resistol SA Flg. Rate Nts. 1988 $282.5
Lone Star Inds. 47.5cts.
Marine Midland Banks Flg. Rate Sub. Nts. 2009 $190.94
Pfizer 45cts.
Ransom (William) 0.75p
Ransomes Sims & Jefferies 5¼% Cum. Prf. 1.925p

TOMORROW

COMPANY MEETINGS-
Booth Inds., St. James's Club, Charlotte Street, Manchester, 11.00
Scottish, English & European Textiles, Caledonian Hotel, Edinburgh, 12.30
BOARD MEETINGS-
Finals;
Bryant Hldgs.
Harvey & Thompson
Interims;
Atlantic Computers
Bank of Wales
Barrows
Bluebird Toys
CI Group
Chapstow Racecourse
Christies Intl.
Citygrove
Clayform Properties
Close Brothers
Clyde Petroleum
Cory (Horace)
Dean & Bowes
Epicure
Flotar
Folkes Group
Rush-Fit
Martin Currie Pacific Tst.
Minet Hldgs.
Ortiams Intl.
Wemoughs
Yule Catto
DIVIDEND & INTEREST PAYMENTS-
Booth Inds. 2p
CAP Group 1.2p
Exchequer 12½% 1990 6¼pc.
Exchequer 13¼% 1992 6⅝pc.
Halliburton 25cts.

WEDNESDAY SEPTEMBER 23

COMPANY MEETINGS-
B.C.E. Hldgs., Dragonara Hotel, Redcliffe Way, Bristol, 12.00
Courts (Furnishers), The Grange, 1, Central Road, Morden, Surrey, 11.00
Fitch Lovell, Plaisterers Hall, 1, London Wall, E.C., 3.00
Robertson Research, Browns Hotel, Dover Street, W., 12.00
BOARD MEETINGS-
Finals;
Castel (S.)
GC Flooring & Furnishing
Peters (Michael)
Interims;
BETEC
Bank of Scotland
Beauford
Bosse Massimi Pollit
Cakebreads Builders Merchants
Capital & Regional Props.
Eadie
Hampden Homecare
Juliana's
Kwahu
Polypipe
Stag Furniture
Thames
Tibbett & Britten
Tilbury
World of Leather
DIVIDEND AND INTEREST PAYMENTS
Aegon Fl. 1.3
Anglia Bldg. Society Flg. Rate Nts. 1995 £117.55
Essex Water 3.5% Cons. 1.75p
Do. 3.5% New 1.75p
National & Provincial Bldg. Society Flg. Rate Nts. 1996 £117.36
Quadrant Intercontinental 0.35cts.
Treasury 2% I.L. 1992 1pc.

THURSDAY SEPTEMBER 24

COMPANY MEETINGS-
Dale Electric, Royal York Hotel, York, 12.00
Dowty Group, Arle Court, Cheltenham, Gloucs., 11.30
Electric & General Inv., 3, Finsbury Avenue, E.C., 12.30
Ellis & Everard, Grand Hotel, Leicester, 12.00
Fezzani, Hotel Intercontinental, 1, Hamilton Place, W., 12.15
Howden Group, 329, Scotland Street, Glasgow, 12.00
Kenyon Securities, Great Western Royal Hotel, Praed Street, W., 5.30
London Shop Property Tst., Savoy Hotel, Strand, W.C., 12.00
Syndell Perkins, Lords Banqueting & Conference Centre, St. Johns Wood Road, N.W., 11.30
BOARD MEETINGS-
Finals;
Logica
Ramar Textiles
Interims;
Bentalls
Central Independent T.V.
Clifford's Dairies
Davidson Pearce
Everard
Guest
F.& C. Pacific Inv. Tst.
Highcroft Inv. Tst.
Lorin Electronics
Novacroft
RMC
SPP
TV-am
United Newspapers
Vickers
Whatman Reeve Angel
DIVIDEND AND INTEREST PAYMENTS-
Asian Development Bank 10¾% Ln. 2009 5⅜pc.
B.C.E. Hldgs. 0.6p
Bank fur Arbeit und Wirtschaft Sub. Flg. Rate Nts. 2000 $335.42
Biotechnology Invs. 10cts.
Evode Group 1.2p
GW Overseas Fin. Gtd. Flg. Rate Nts. 1994 $335.42
Grupo Industrial Alfa Flg. Rate Nts. 1988 $255.56
Halifax Bldg. Society Flg. Rate Ln. Nts. 1988 £239.80
Intl. Bank for Recovery & Dev. 9½% Ln. 2010 4¾pc.
Robertson Research 2p
Sidlaw Group 7½% Uns. Ln. 2003/08 3¾pc.
Spain (Kingdom of) 11¾% Ln. 2010 5⅞pc.
Treasury 2½% I.L. 2001 1¼pc.
United Kingdom Flg. Rate Nts. 1988 $177.29

FRIDAY SEPTEMBER 25

COMPANY MEETINGS-
Barbour Index, New Lodge, Drift Road, Windsor, 4.00
Dyson (J. & J.), Hallam Tower Post House Hotel, Sheffield, 12.00
Leigh Interests, The Belfry, Wishaw, North Warwicks., 12.00
Property Security Inv. Tst., Butchers Hall, 87, Bartholomew Close, E.C., 11.30
Sommerville (William), Park Hotel, Peebles, 2.30

Appointments

Finance director of Land Rover

Mr John Sellers has been appointed finance director of LAND ROVER. He joins from Tube Investments Group where he has been group financial controller since 1981. He has also worked for BL and Vauxhall Motors.

*

Mr Andrew How, former operations manager of Sealord Products, New Zealand, has been appointed chief executive of MARR (FALKLANDS) of Hull. The company runs catching and marketing operations in Port Stanley, FI, and is in partnership with the Falkland Islands Development Corporation to develop a South Atlantic fishing industry.

*

TREBOR has appointed **Mr Barry Bowen** as managing director of Moffat, the group's wholesale confectionary and tobacco division. He was marketing development director.

Mr Dennis J.Burrell, chairman and managing director of Martin Baker Aircraft Co., has been appointed a director of NATIONAL WESTMINSTER BANK's outer London regional board,

*

Mr Roger B.Morgan has joined the board of ABACO INVESTMENTS. He is chairman of Morgan, Read & Coleman (Holdings), which has been acquired by Abaco.

WORLD STOCK MARKETS

AUSTRIA

1987 High	1987 Low	Sep. 18	Price Schs.
2410	1890	Creditanstalt	2180
3300	2460	Goesser	3300
13200	10,800	Interunfall	12450
14,000	7050	Jungbunzlauer	8570
2160	1740	Laenderbank	2000
780	565	Perlmooser	720
167	108	Steyr-Daimler	123
1113	690	Veitscher Mag.	855

BELGIUM/LUXEMBOURG

1987 High	1987 Low	Sep. 18	Price Frs.
3465	2900	B.B.L.	3275
16000	14775	Banque Gen. Du L.	14775
15200	14300	Bank Int. A	14300
13175	9000	Bekaert B	11000
U91066	003900	Cigest CBR6400 186	
12100	7500	Colruyt	11000
4700	2700	Delhaize	4470
5500	4685	EBES	4770
2700	1320	Fabrique Nat	1448
1440	926	GB Inno BM	1314
4525	3430	GBL (Brux) L	3705
6850	6080	Generale Bank	6350
9260	6000	Gevaert	8070
9100	6680	Hoboken	8360
4510	3765	Intercom	3810
4900	4040	Kredietbank	4550
13500	10,650	Pan Holdings	13500
14175	9210	Petrofina	12900
1870	1520	Raffinerie Tirle	1775
8000	5000	Royale Belge	6010
4195	3115	Soc Gen Belge	3700.00
16350	10375	Sofina	14700
15550	8270	Solvay	14750
550	185	Stanwick Intl.	550
8550	6280	Tractebel	7900
11950	8900	UCB	10650
6000	5160	Wagons Lits.	5650

DENMARK

1987 High	1987 Low	Sep. 18	Price Kr %
1140	720	Baltica Hldgs.	1050.00

GERMANY

1987 High	1987 Low	September 11	Price Dm.
360.2	220	AEG	338.50
2220	1553	Allianz Vers	2070.00
1071	239	BASF	1071.00
364	274	Bayer	355.50
543	365	Bayer-Hypo	508.00
529	375	Bayer-Verein	481.00
543	390	BHF-Bank	477.00
787	455	BMW	737.50
369	270	Brown Boveri	359.80
312	244.5	Commerzbank	299.50
374	269	Cont'l Gummi	341.90
1220	920	Daimler-Benz	1078.00
579	420	Degussa	532.00
254	200	D'sche Babcock	234.00
790	571	Deutsche Bank	690.30
381	286	Dresdner Bank	360.00
350.5	268	Feldmuehle Nobel	322.90
588.5	458	Henkel	579.00
1110	612	Hochtief	685.00
344	240	Hoechst	319.40
137.9	88	Hoesch Werke	126.20
555	367	Holzmann (P)	405.00
293	201	Horten	234.90
690	507	Hussel	664.00
582	403	Karstadt	576.00
537.5	447	Kaufhof	503.00
200	142	KHD	187.00
163.5	130	Kloeckner Werke	149.00
795	589	Linde	743.00
215.5	122	Lufthansa	175.50
202	148	MAN	189.80
187.5	142	Mannesmann	176.60
1055.5	740	Mercedes Hld.	946.00
395	250	Metallgesell	365.00
2700	1550	Muench Rueck	2080
866.5	687	Nixdorf	825.00
1025	815	Porsche	984.00
206	145	Preussag	203.00
266.5	186	Rhein West Elect.	244.00
346	238	Rosenthal	299.00
691	524	Schering	609.00
747.5	620	Siemens	651.70
142	109	Thyssen	133.30
388	311	Varta	361.00
333	252	Veba	315.50
180	139.5	V.E.W.	168.00
486	375	Verein-West	461.00
430	312	Volkswagen	398.50

NETHERLANDS

1987 High	1987 Low	Sep. 18	Price Fls.
56.3	45	Philips	51.10
116	94	Robeco	109.00
146.8	137.6	Rodamco	143.00
109.9	82.8	Rolinco	104.30
52.6	49.6	Rorento	51.80
297.2	207.8	Royal Dutch	257.50
692.3	132.5	Unilever	138.30
28	21.1	VMF Stork	22.00
97.5	68	VNU	93.50
97.5	73	Wessanen	87.00
140	106.5	Wolters Kluwer	136.50

HONG KONG

1987 High	1987 Low	Sep. 18	Price H.K.$
14.8	11.3	Hutchison Wpa.	13.90
33	17.7	Indust Equity P	31.00
22.6	13.1	Jardine Math	22.10
15.2	8.1	New World Dev.	14.90
19.7	9.25	SHK Props.	18.30
2.4	1.12	Shell Elec. Mfg.	2.35
26.6	15.5	Swire Pac A	26.50
17.6	8.45	TV-B	16.10
10.4	7.5	Wharf Hldgs.	10.00
15.8	6.7	Windsor Ind.	14.90
4.87	3	World Int Hldgs.	4.65

AUSTRALIA

JAPAN

FRANCE

ITALY

NORWAY

SWITZERLAND

FINLAND

SWEDEN

SPAIN

SOUTH AFRICA

SINGAPORE

CANADA

TORONTO

Closing prices September 18

MONTREAL

Closing prices September 18

OVER-THE-COUNTER

Nasdaq national market, closing prices, September 18

Continued from Page 41

Indices

NEW YORK

DOW JONES

	Sept. 18	Sept. 17	Sept. 16	Sept. 15	1987 High	1987 Low	Since compilation High	Since compilation Low
♦Industrials	2524.64	2527.90	2530.19	2566.58	2613.04 (25/8)	1927.31 (2/1)	2722.42 (25/8/87)	41.22 (2/7/32)
Home Bonds	84.36	84.13	84.39	84.65	84.87 (9/2)	84.33 (16/9)	— (—)	— (—)
Transport	1013.83	1021.47	1024.76	1033.46	1038.72 (14/8)	816.38 (2/1)	1101.16 (14/8/87)	12.32 (8/7/32)
Utilities	194.17	195.29	195.71	197.25	199.86 (22/1)	191.39 (20/5)	227.83 (22/1/87)	10.5 (8/4/32)

♦Day's High 2554.83 (2557.28) Low 2514.03 (2508.00)

STANDARD AND POOR'S

	Sept. 18	Sept. 17	Sept. 16	Sept. 15	1987 High	1987 Low	Since compilation High	Since compilation Low
Composite‡	314.86	314.93	314.86	317.74	336.77 (25/8)	246.45 (2/1)	336.77 (25/8/87)	4.40 (1/6/32)
Industrials	368.04	368.06	367.94	371.55	393.17 (25/8)	274.58 (2/1)	393.17 (25/8/87)	3.62 (21/6/32)
Financials	29.68	29.66	29.77	30.05	32.43 (25/8)	25.97 (29/5)	32.43 (25/8/87)	8.64 (1/10/74)
NYSE Composite	176.36	176.48	176.51	177.98	187.99 (25/8)	141.01 (2/1)	187.99 (25/8/87)	4.46 (28/4/42)
Amex Mkt. value	353.66	352.61	352.77	353.47	365.01 (19/8)	267.49 (2/1)	365.01 (13/8/87)	29.31 (9/12/72)
NASDAQ OTC Comp	440.86	440.75	440.85	441.94	455.28 (26/8)	353.26 (2/1)	455.28 (26/8/87)	54.87 (3/10/72)

	Sept. 11	Aug. 28	Aug. 21	year ago (approx.)
Dow Industrial Div. Yield	2.63	2.59	2.52	3.87
	Sept. 16	Sept. 9	Sept. 2	year ago (approx.)
S and P Industrial Div. Yield	2.36	2.36	2.30	3.16
S and P P/E ratio	22.71	22.64	23.23	16.58

TRADING ACTIVITY

† Volume (Millions)

	Sept. 18	Sept. 17	Sept. 16
New York	188.07	150.010	195.740
Amex	11.762	10.798	12.310
OTC	—	154.551	141.805

NEW YORK	Sept. 18	Sept. 17	Sept. 16
Issues Traded	1,994	1,975	1,977
Rises	677	680	509
Falls	879	818	1,016
Unchanged	438	477	452
New Highs	—	34	28
New Lows	—	65	55

CANADA

TORONTO

	Sept. 18	Sept. 17	Sept. 16	Sept. 15	1987 High	1987 Low
Metals & Minerals	3315.4	3246.1	3216.5	3235.5	3483.6 (4/8)	1988.2 (2/1)
Composite	3912.8	3901.0	3908.3	3291.2	4112.9 (13/8)	3067.8 (2/1)
MONTREAL Portfolio	1941.41	1932.94	1936.27	1939.90	2224.77 (16/7)	1534.3 (2/1)

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Closing price	Change on day		Stocks traded	Closing Price	Change on day
Dayton Hud.	5,460,600	58	+5⅞	IBM	2,265,300	155⅝	−2½
Portland	5,162,300	24½	−½	Upjohn	2,225,100	46¼	−2⅞
USF&G	3,278,000	41¾	+¼	Gap Inc.	2,069,000	47⅛	−8⅜
Exxon	2,490,900	46	+¼	Limited	2,065,600	36	−2
Gen. Pub. Ut.	2,290,400	27¼	−¼	Gen. Elec.	2,044,900	59⅝	+⅛

Closing prices September 18

NEW YORK STOCK EXCHANGE COMPOSITE CLOSING PRICES

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
37⅞	20⅝	AAR s	.50	1.3	25	110	37⅞	35¾	37⅞	+1⅞
52	22	ADT	.92	1.8	29	2722	51¾	51⅝	51¾	
31¼	16¾	AFG s	.16	.6	10	186	28⅝	28⅛	28⅞	−⅜
22⅝	8⅝	AGS s			20	179	21⅝	20¾	21⅝	+⅞
10⅝	6¾	AMCA				84	9⅝	9⅝	9⅝	−¼
9⅝	4⅞	AM Intl				704	7½	7⅜	7⅜	
65½	30½	AMR			12	2034	55¼	54⅞	55	+¼
27½	24⅞	ANR pf	2.67	10.		2	25⅝	25⅝	25⅝	+⅛
25	22¼	ANR pf	2.12	9.5		1	22⅜	22⅜	22⅜	−¼
12¼	8¼	ARX s			11	103	11⅜	11¼	11¼	
73½	34⅝	ASA	2a	3.1		436	64¼	63¼	63½	−½
20⅝	8¾	AVX			39	618	19⅝	18¾	19⅛	−⅛
67	41⅛	AbtLab	1	1.7	24	4849	60¼	59¼	59⅞	+½
28	24¼	Abitibi g				72	24¾	24¼	24¼	−⅜
16¾	9¾	AcmeC	.40	3.0	14	128	13⅛	13⅛	13⅛	+⅛
10½	6⅛	AcmeE	.32b	3.6	56	19	9	9	9	−⅛
23⅞	19	AdaEx	3.42e	16.		138	21⅞	21⅝	21⅝	−¼
19½	10	AdmM s	.24	2.1	9	263	11⅛	10⅝	11½	+¾
28⅞	12⅛	AdvSys	.62t	2.3	18	216	27⅛	26¾	26⅞	−⅛
24½	12⅞	AMD				3581	20½	20⅛	20¼	−¼
55⅝	47	AMD pf	3	5.8		606	52⅛	52	52	−⅛
11⅞	5¼	Adobe				287	8¾	8½	8½	
20½	14¾	Adob pf	1.84	9.7		250	19	19	19	
21⅞	17	Adob pf	2.40	12.		20	20¼	20⅛	20⅛	−⅛
15	10⅝	Advest	.12a	1.0	9	136	11½	11¼	11½	+⅛
68¼	53	AetnLf	2.76	4.6	8	6627	60	59⅛	59½	+⅜

[illegible]

Continued on Page 41

NYSE COMPOSITE CLOSING PRICES

Continued from Page 40

12 Month High	12 Month Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
18⅝	8¾	Pallen .02e		.2	11	366	9⅝	9¼	9¾	+¼
27½	9½	PayNP .40		1.9	20	7	20⅝	20⅝	20⅝	
28⅝	15⅛	PayCsh .16		.9	15	1210	19⅛	18¼	18¼	–⅛
60½	46⅝	PenCen .05		1		446	52⅞	51½	51⅞	+⅜
66	34½	Penney 1.48		2.7	15	10560	56⅛	55½	56¼	+2¼
41⅛	33½	PaPL	2.66	7.6	11	644	35¼	34⅝	35⅛	+½
56	46¼	PaPL pf4.40		9.2		z10	48	48	48	
54	47½	PaPL pf4.50		9.0		z230	50	50	50	–¼
101	84	PaPL pr8.40		10.		z20	84	84	84	–1
105	86¼	PaPL pr8.70		9.7		z30	90	90	90	+1
68¼	44	Pennwlt 2.40		3.9	16	236	62¼	61½	61½	–½
39½	26	Penw pr1.60		4.4		2	36	36	36	–¼
85	54½	Pennzoil 2.20		3.1	48	1148	71⅞	70⅝	70⅝	+⅜
26¾	18½	PeopEn .44		7.6	10	849	19¼	18⅞	18⅞	–⅛
18⅞	12⅝	PepBy s			30	720	17⅞	17½	17½	–⅜
42¾	24½	PepsiCo .58		1.6	19	5956	39¼	38½	38¾	+⅛
13⅛	10⅛	PerkF n1.15e		10	26	40	11⅝	11⅝	11⅝	–⅛
41⅛	25	PerkEl .68		1.7		4262	35⅝	34¾	35	–⅜
8⅛	5½	Prmian .40e		5.8	11	278	7	6⅞	6⅞	
10¼	8⅝	PrLP pr1.15		12.		280	10	9¾	9⅞	
15⅝	9½	PeryDr .22		2.2		156	10⅛	9⅞	10	
40	24½	Petrie .70		1.9	24	1190	36⅞	36	36⅝	+⅜
21¼	17½	PtPar n 2		9.8		119	20¾	20½	20½	–¼
33½	28⅝	PetRs 2.57e		8.9		118	29½	29	29	–¼
20	15¾	PetRs pf1.57		8.7		31	18⅛	18⅛	18⅛	+⅛
2⅛	1	PtrInv .13e		7.4		73	1⅞	1⅝	1⅝	–⅛
77	36¼	Pfizer 1.60		2.6	16	3697	68¾	68⅛	68¾	–¼
51⅛	17⅝	PhelpD			36	10431	u54	50⅝	54	+4⅜
69⅝	51	PhlpD pf 3		4.2		901	u71½	68	71½	+4½
26	19⅛	PhilaEl 2.20		11.	8	2520	20¼	20	20⅛	

12 Month High	12 Month Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
58¼	53⅝	Xerox pf5.45		10.		27	54½	53⅞	54	
31½	21½	XTRA .64		2.2	23	70	29⅝	29⅛	29⅛	+⅛
32½	15	Yorkin			15	166	32⅝	32	32⅛	–⅝
7¼	2¼	Zapata				383	5¼	5	5⅛	
32⅞	20¾	Zayre .40		1.4	11	6296	29⅞	29⅛	29½	–¼
14¾	9⅞	Zemex .40		2.9	9	4	13⅞	13⅝	13⅝	
33⅝	18⅞	ZenithE			106	2013	27	26	26½	–⅛
13½	6¼	ZeoLab				647	7⅝	7⅝	7½	
26½	18¾	ZeroNt .80		3.7	13	23	22	21⅝	21⅝	–⅛
20⅝	13⅝	Zero .36		1.9	19	101	19	18½	18⅞	
30¾	17½	Zurnin s .68		2.6	18	254	26⅛	25⅞	26	
10⅝	8¾	Zweig n.65e		6.4		820	10¼	10⅛	10⅛	–⅛

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 per cent or more has been paid, the year's high-low range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividends are annual disbursements based on the latest declaration.

a-dividend also extra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E-price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls – sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-divident or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE CLOSING PRICES *September 18*

OVER-THE-COUNTER *Nasdaq national market, closing prices, September 18*

Continued on Page 39

CURRENCIES, MONEY & CAPITAL MARKETS

FOREIGN EXCHANGES

Trade figures may continue the good news

By Colin Millham

LAST WEEK was much better than feared for UK economic news, with most interest concentrating on Friday's bank lending figures.

This week there will be fewer figures, but once again there is one important statistic, Thursday's trade figures.

Few of the City's economists expect the August trade figures tto be worse than the July deficit of £910m, and the current account shortfall of £310m. According to a survey by Money Market Services the trade deficit will be £850m and the balance of payments on this basis will be down £250m.

MMS itself and Greenwell Montagu Research expect £900m on trade and £300m for the current account, but other forecasts are more optimistic. Morgan Grenfell and Nomura Research Institute are looking for a trade deficit of £850m and £150m on balance of payments, while Kleinwort Grieveson Securities; County NatWest Gilt Edged Securities; and James Capel forecast a trade dificit of £750m to £780m and a current account deficit of £150m to £180m.

Last Friday's news on bank lending was particularly encouraging. The August rise of £2bn was below the median market forecast of £2.5bn, and well below the highest estimate of around £3.5bn.

It was also below the average of £2.3bn for the first five months of the year, and eased fears that growth in credit was getting out of control after the rise of £3.9bn in June and £4.9bn in July.

Growth in narrowly defined M0 money supply of 0.3 per cent in August was also below forecasts of around 0.4 per cent, while M3 growth of 1.5 per cent was in line with most forecasts, but better than 2.3 per cent in July.

This followed a series of good figures on Public Sector Borrowing; industrial production; and unemployment, keeping sterling firm, and encouraging a slight easing of London money market rates.

Today sees publication of the Confederation of British Industry monthly trends inquiry and figures on second quarter growth in Gross Domestic Product. City GDP forecasts range from about 0.3 per cent to 1.2 per cent, to give annual growth of 3.5 per cent to 4.3 per cent.

Only the trade figures are likely to have much impact on sterling, as attention turns towards the International Monetary Funds annual meeting in Washington at the end of the month, and any decisions made by ministers from the leading industrial nations.

Finance Ministers from the Group of Seven will be in Washington and are expected to meet on Friday, when it is rumoured there may be a downward revision in the agreed trading range for the dollar.

At the end of last week it was suggested in Tokyo the target range for the dollar against the yen would be reduced to Y130 to Y150 from the present assumed level of Y140 to Y160. This led to a decline in the dollar last Friday, but dealers expect little further change ahead of the IMF/G7 gatherings.

Figures on US personal income and consumption will be published today. An MMS survey suggests income will rise 0.6 per cent in August, compared with 0.4 per cent in July and consumption 1.2 per cent, against 0.9 per cent.

The August US consumer price index on Wednesday is forecast to rise 0.3 per cent to 0.4 per cent, giving a year-on-year inflation rate of 3.9 per cent to 4.2 per cent. On the same day market expectations are that August durable goods orders will rise 0.5 per cent, but Nomura forecasts a gain of 1 per cent.

LIFFE LONG GILT FUTURES OPTIONS

Strike Price	Calls—Last Dec	Calls—Last March	Puts—Last Dec	Puts—Last March
108	9.00	9.35	0.08	0.35
110	7.11	7.55	0.19	0.57
112	5.25	6.22	0.33	1.24
114	3.52	4.62	0.60	2.00
116	2.34	3.55	1.42	2.57
118	1.38	2.57	2.46	3.59
120	0.60	2.07	4.04	5.09
122	0.32	0.31	5.40	6.33

Estimated volume total, Calls 2,885 Puts 2,314
Previous day's open int: Calls 22,510 Puts 14,800

LIFFE US TREASURY BOND FUTURES OPTIONS

Strike Price	Calls—Last Dec	Calls—Last March	Puts—Last Dec	Puts—Last March
78	5.26	5.10	0.28	1.04
80	3.35	3.53	0.57	1.47
82	2.27	2.47	1.29	2.41
84	1.21	1.56	2.25	3.50
86	0.44	1.15	3.46	5.09
88	0.21	0.49	5.23	6.43
90	0.09	0.30	7.11	8.24
92	0.03	0.17	9.05	10.11

Estimated volume total, Calls 85 Puts 66
Previous day's open int: Calls 762 Puts 573

LIFFE FT-SE 100 INDEX FUTURES OPTIONS

Strike Price	Calls-Last Sept.	Calls-Last Oct.	Puts-Last Sept.	Puts-Last Oct.
22750	7.47	13.25	0.27	1.35
23000	5.35	11.30	0.65	1.90
23250	3.55	9.50	1.35	2.60
23500	2.15	7.87	2.45	3.47
23750	1.17	6.42	3.97	4.52
24000	0.57	5.15	5.87	5.75
24250	0.25	4.06	8.05	7.16
24500	0.09	3.15	10.39	8.75

Estimated volume total, Calls 63 Puts 59
Previous day's open int: Calls 495 Puts 304

£ IN NEW YORK

Sept. 18	Latest	Previous Close
£ Spot	1.6455-1.6475	1.6465-1.6475
1 month	0.30-0.29pm	0.31-0.29pm
3 months	0.93-0.90pm	0.94-0.92pm
12 months	2.78-2.68pm	2.77-2.69pm

Forward premiums and discounts apply to the U.S. dollar.

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu central rates	Currency amounts against Ecu Sept 18	% change from central rate	% change adjusted for divergence	Divergence limit %
Belgian Franc	42.4582	43.1118	+1.54	+0.81	± 1.5344
Danish Krone	7.85212	7.99379	+1.80	+1.07	± 1.6404
German D-Mark	2.05853	2.07666	+0.88	+0.15	± 1.0981
French Franc	6.90403	6.92354	+0.28	−0.45	± 1.3674
Dutch Guilder	2.31943	2.33695	+0.76	+0.03	± 1.5012
Irish Punt	0.768411	0.773650	+0.68	−0.05	± 1.6684
Italian Lira	1,483.58	1499.27	+1.06	+0.96	± 4.0752

Changes are for Ecu, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

STERLING INDEX

		Sept. 18	Previous
8.30	am	73.2	73.2
9.00	am	73.3	73.2
10.00	am	73.3	73.1
11.00	am	73.3	73.2
Noon		73.3	73.2
1.00	pm	73.3	73.2
2.00	pm	73.3	73.2
3.00	pm	73.3	73.3
4.00	pm	73.3	73.2

POUND SPOT—FORWARD AGAINST THE POUND

Sept. 18	Day's spread	Close	One month	% p.a.	Three months	% p.a.
US	1.6495-1.6575	1.6550-1.6550	0.31-0.29 cpm	2.17	0.92-0.87 pm	2.09
Canada	2.1755-2.1790	2.1755-2.1765	0.18-0.10 c pm	0.77	0.37-0.25 pm	0.57
Netherlands	3.36-3.37	3.36-3.37	1⅜-1¼ c pm	4.46	3⅝-3½ pm	4.43
Belgium	61.99-62.24	62.05-62.15	20-15 c pm	3.38	57-47 pm	3.35
Denmark	11.49¾-11.53	11.50-11.51	⅛pm-⅝ore dis	−0.39	⅛-⅞ dis	−0.17
Ireland	1.1120-1.1160	1.1140-1.1150	0.12-0.06c pm	0.97	0.36-0.19 pm	0.99
W. Germany	2.98½-2.99¾	2.98½-2.99½	1⅜-1¼ pfpm	5.52	4⅛-4⅛ pm	5.69
Portugal	235.26-236.90	235.90-236.87	64-115 c dis	−4.54	264-349 dis	5.19
Spain	199.74-200.44	199.88-200.17	95-113 c dis	−6.24	234-278 dis	−5.12
Italy	2154.51-2164.50	2155.70-2161.97	5-9 lire dis	−3.89	18-23 dis	−3.80
Norway	10.94-10.97	10.95-10.96	3⅝-3⅞ ore dis	−4.02	10½-11 dis	−3.90
France	9.95¼-9.98½	9.95¼-9.96¼	1⅞-1⅜ c pm	1.93	4¼-3⅛ pm	1.72
Sweden	10.50-10.53	10.51½-10.52½	¼ore-¼ore pm	0.51	1¼-⅞ pm	0.49
Japan	235¼-236¼	235¾-236¾	1¼-1 y pm	5.74	3⅝-3¼ pm	5.53
Austria	21.03-21.11	21.08-21.11	9⅞-8⅞ gro pm	5.31	28½-26¼ pm	5.18
Switzerland	2.47½-2.48½	2.47½-2.48½	1⅜-1¼ c pm	6.05	3⅞-3⅝ pm	6.01

Belgian rate is for convertible francs. Financial franc 62.35-62.45. Six-month forward dollar 1.58-1.51 c pm. 12-month 2.53-2.43 pm.

CURRENCY RATES

Sept. 18	Bank rate %	Special Drawing Rights	European Currency Unit
Sterling	—	0.782164	0.694347
U.S. Dollar	5.5	1.29409	1.15019
Canadian $	8.75	*	1.51134
Austrian Sch.	4	16.4789	14.6154
Belgian Franc	7¾	48.5963	43.1118
Danish Krone	7	[illegible]	7.99379
Deutsche Mark	3.0	[illegible]	2.07666
Neth. Guilder	4½	[illegible]	2.33695
French Franc	9½	[illegible]	6.92354
Italian Lira	12	[illegible]	1499.27
Japanese Yen	2½	[illegible]	164.016
Norway Krone	8	[illegible]	7.61135
Spanish Peseta		[illegible]	138.942
Swedish Krona	7½	[illegible]	7.30945
Swiss Franc	3.5	[illegible]	1.72010
Greek Drach.	20½	[illegible]	159.048
Irish Punt		N/A	0.773650

*CS/SDR rate for Sept. 17; 1.69579

DOLLAR SPOT—FORWARD AGAINST THE DOLLAR

Sept. 18	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	1.6495-1.6575	1.6550-1.6560	0.31-0.29cpm	2.17	0.92-0.87	2.09
Ireland†	1.4812-1.4875	1.4860-1.4870	0.16-0.12c pm	1.13	0.52-0.43pm	1.28
Canada	1.3150-1.3150	1.3135-1.3145	0.14-0.17dis	−1.41	0.51-0.54 dis	−1.60
Netherlands	2.0300-2.0390	2.0305-2.0315	0.41-0.38c pm	2.33	1.17-1.12pm	2.25
Belgium	37.44-37.58	37.45-37.55	4.70-2.70c pm	1.18	12.80-8.80pm	1.15
Denmark	6.94¼-6.97½	6.94¾-6.95¼	0.60-1.30ore dis	−1.64	2.65-3.35 dis	−1.72
W. Germany	1.8030-1.8120	1.8150-1.8060	0.53-0.50pf pm	3.42	1.59-1.54pm	3.46
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

† UK and Ireland are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency. Belgian rate is for convertible francs. Financial franc 37.65-37.75

CURRENCY MOVEMENTS

	Bank of England Index	Morgan Guaranty Changes %
[illegible]	[illegible]	[illegible]

Morgan Guaranty changes: average 1980-1982=100. Bank of England Index (Base average 1975=100).

EURO-CURRENCY INTEREST RATES

Sept. 18	Short term	7 Days notice	One Month	Three Months	Six Months	One Year
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Long-term Eurodollars: Two years 9⅝-9 per cent; three years 9⅞-9¼ per cent; four years 9⅞-9⅝ per cent; five years 10-9⅝ per cent nominal. Short-term rates are call for US Dollars and Japanese Yen; others, two days' notice.

OTHER CURRENCIES

Sept. 18	£	$
[illegible]	[illegible]	[illegible]

*Selling rate.

EXCHANGE CROSS RATES

Sept. 18	£	$	DM	Yen	F Fr.	S Fr.	H Fl.	Lira	C $	B Fr.
£	1.	1.656	2.990	236.3	9.963	2.478	3.363	2157.	2.176	62.10
$	0.604	1.	1.806	142.7	6.018	1.497	2.031	1303.	1.314	37.51
DM	0.334	0.554	1.	79.01	3.332	0.829	1.125	721.4	0.728	20.77
YEN	4.233	7.007	12.66	1000.	42.17	10.49	14.23	9130.	9.211	262.9
F Fr.	1.004	1.662	3.001	237.1	10.	2.487	3.375	2165.	2.184	62.33
S Fr.	0.404	0.668	1.207	95.36	4.021	1.	1.357	870.6	0.878	25.07
H Fl.	0.297	0.492	0.889	70.26	2.963	0.737	1.	641.5	0.647	18.47
Lira	0.464	0.768	1.386	109.5	4.619	1.149	1.559	1000.	1.009	28.79
C $	0.460	0.761	1.374	108.6	4.578	1.139	1.545	991.3	1.	28.54
B Fr.	1.610	2.666	4.815	380.4	16.04	3.990	5.415	3473.	3.504	100.

Yen per 1,000: French Fr per 10: Lira per 1,000: Belgian Fr per 100.

FORWARD RATES AGAINST STERLING

	Spot	1 mth	3 mths	6 mths	12 mths
US Dollar	1.6555	1.6525	1.6466	1.6401	1.6307
D-mark	2.9900	2.9761	2.9481	2.9116	2.8370
French Fr.	9.9625	9.9461	9.9210	9.8967	9.8680
Swiss Fr.	2.4775	2.4655	2.4403	2.4085	2.3406
Yen	236.25	235.14	232.99	230.03	224.20

PHILADELPHIA SE £/$ OPTIONS / LIFFE £/$ OPTIONS / LIFFE-EUROCOLLAR OPTIONS / LONDON SE £/$ OPTIONS

[illegible]

LONDON

30-YEAR 12% NOTIONAL GILT; 6% NOTIONAL LONG TERM JAPANESE GOVT BOND; THREE-MONTH STERLING; FT-SE 100 INDEX; THREE-MONTH EURODOLLAR; U.S. TREASURY BONDS 8%

[illegible]

CHICAGO

U.S. TREASURY BONDS (CBT) 8%; U.S. TREASURY BILLS (IMM); SWISS FRANC (IMM); JAPANESE YEN (IMM); DEUTSCHE MARK (IMM); THREE-MONTH EURODOLLAR (IMM); STANDARD & POORS 500 INDEX

[illegible]

CURRENCY FUTURES

POUND—$ (FOREIGN EXCHANGE)

[illegible]

IMM—STERLING $ per £

	Close	High	Low	Prev
Dec.	1.6485	1.6495	1.6445	1.6385
Mar.	1.6410	1.6450	1.6370	1.6300
June	1.6335	1.6340	—	1.6220

LIFFE—STERLING £25,000 $ per £

	Close	High	Low	Prev
Dec.	1.6473	1.6473	1.6468	1.6392
Mar.	1.6405	—	—	1.6317

Estimated volume 25 (112)
Previous day's open int 244 (146)

MONEY MARKETS

Rates ease on encouraging data

UK clearing bank base lending rate 10 per cent since August 7

INTEREST RATES fell in London last week, after some encouraging UK economic news. August bank lending rose by less than half the July figure, and the increase of £750m in the August Public Sector Borrowing Requirement was about half most City estimates.

July industrial production rose 2.2 per cent, about double most forecasts, and reversed June's fall of 1.3 per cent. The market was particularly pleased with an export led rise of 1.6 per cent in monthly manufacturing output and an increase of 6 per cent on the year.

A further fall in unemployment was encouraging while the underlying rise of 7.75 per cent in average earnings and the increase of 11.7 per cent in unit wage costs were in line with most estimates.

These were followed on Friday by much better than feared August bank lending figures.

Sterling improved against the dollar and nudged up towards the DM 3.00 level.

FT LONDON INTERBANK FIXING

(11.00 a.m. Sept.18) 3 months U.S. dollars		6 months U.S. dollars	
bid 9 1/16	offer 7 11/16	bid 7 13/16	offer 8 1/16

The fixing rates are the arithmetic means, rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted by the market to five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque Nationale de Paris and Morgan Guaranty Trust.

BANK OF ENGLAND TREASURY BILL TENDER

[illegible]

WEEKLY CHANGE IN WORLD INTEREST RATES

[illegible]

MONEY RATES

NEW YORK (4 pm)

		Treasury Bills and Bonds			
Prime rate	8¾	One month	5.75	Three year	8.59
Broker loan rate	8¾	Two month	6.28	Four year	8.75
Fed. funds	6⅝	Three month	6.62	Five year	8.93
Fed funds at intervention	7⅛	Six month	6.99	Seven year	9.19
		One year	7.56	10 year	9.38
		Two year	8.26	30 year	9.56

September 18	Overnight	One Month	Two Months	Three Months	Six Months	Lombard Intervention
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

LONDON MONEY RATES

Sept. 18	Over-night	7 days notice	Month	Three Months	Six Months	One Year
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]